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State of the Industry and Rhode Island Overview October 3, 2008

Presented by:
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802-454-1800

Rhode Island Workers Compensation System— An Overview

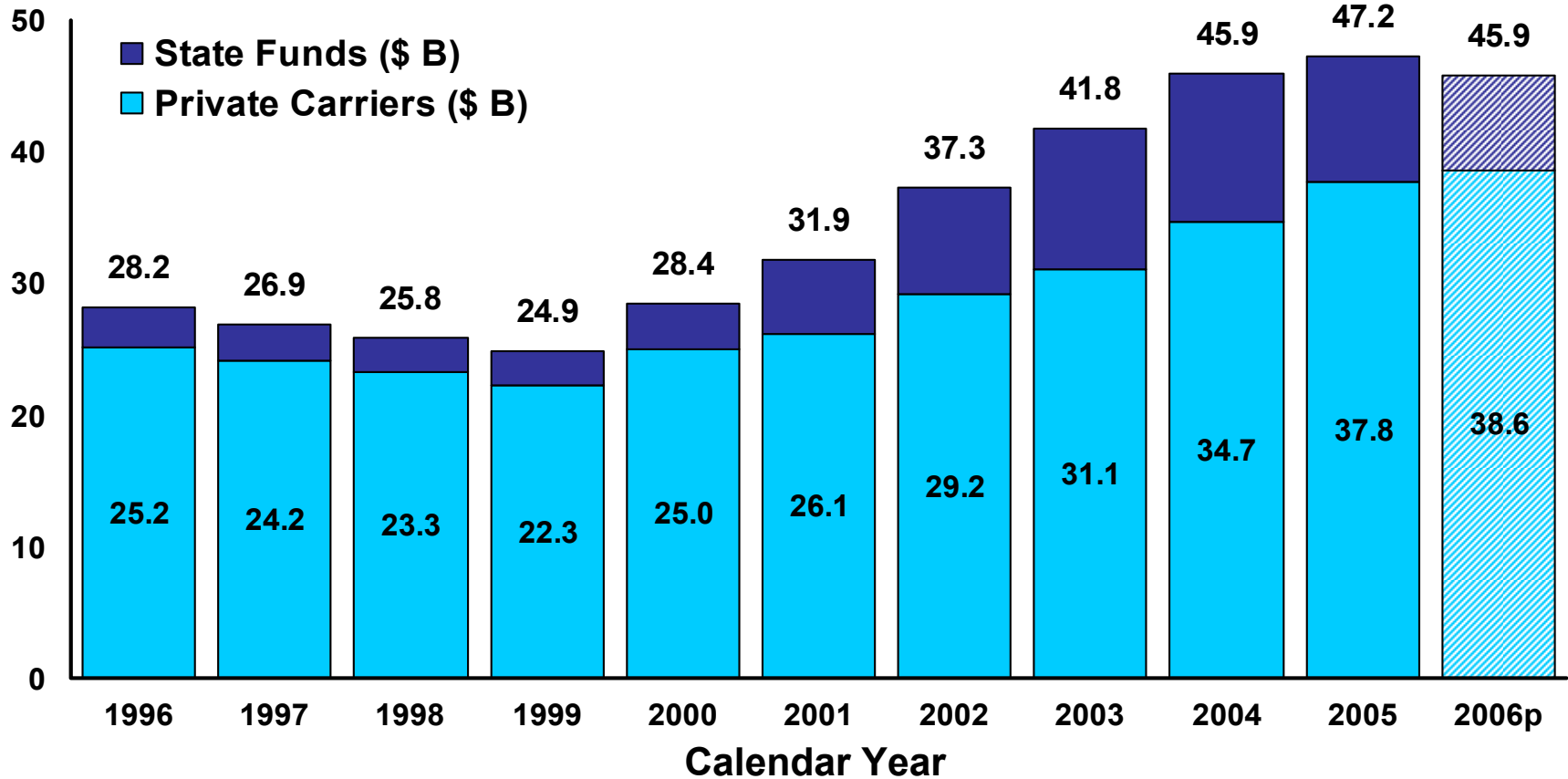
- Premium declined for the first time in eight years
- Indemnity benefits represent more than 60% of total benefit costs
- Decline in indemnity loss ratios, slight increase in medical loss ratios
- Highest lost time claim frequency, lowest claim severity in region



Countrywide Total Workers Compensation Premium Declined in 2006

\$ Billions

Net Written Premium



p Preliminary

Source: 1996–2005 Private Carriers, A.M. Best Aggregates & Averages; 2006p, NCCI

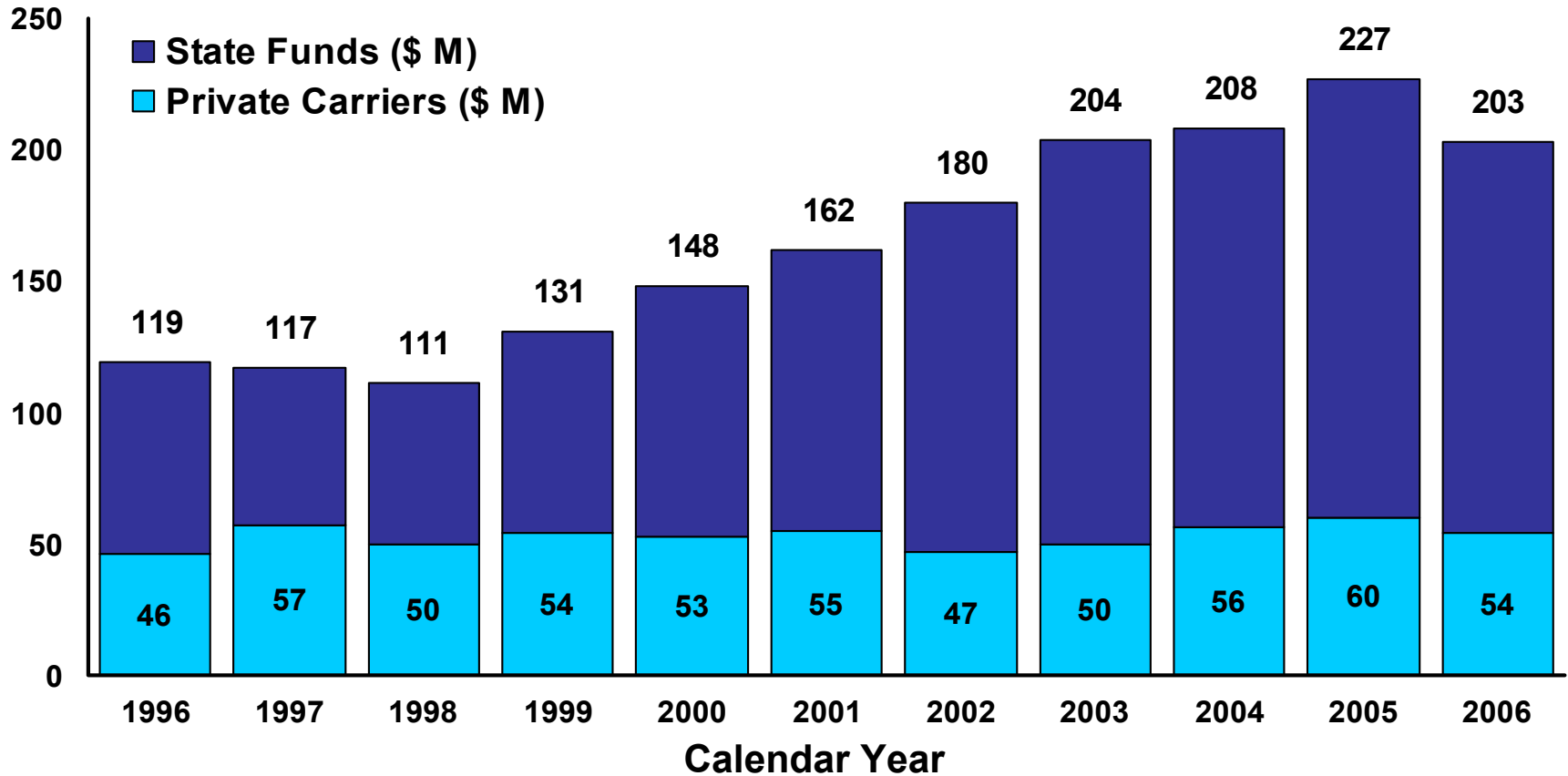
1996–2006p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements



Rhode Island Workers Compensation Premium Declined in 2006

\$ Millions

Net Written Premium



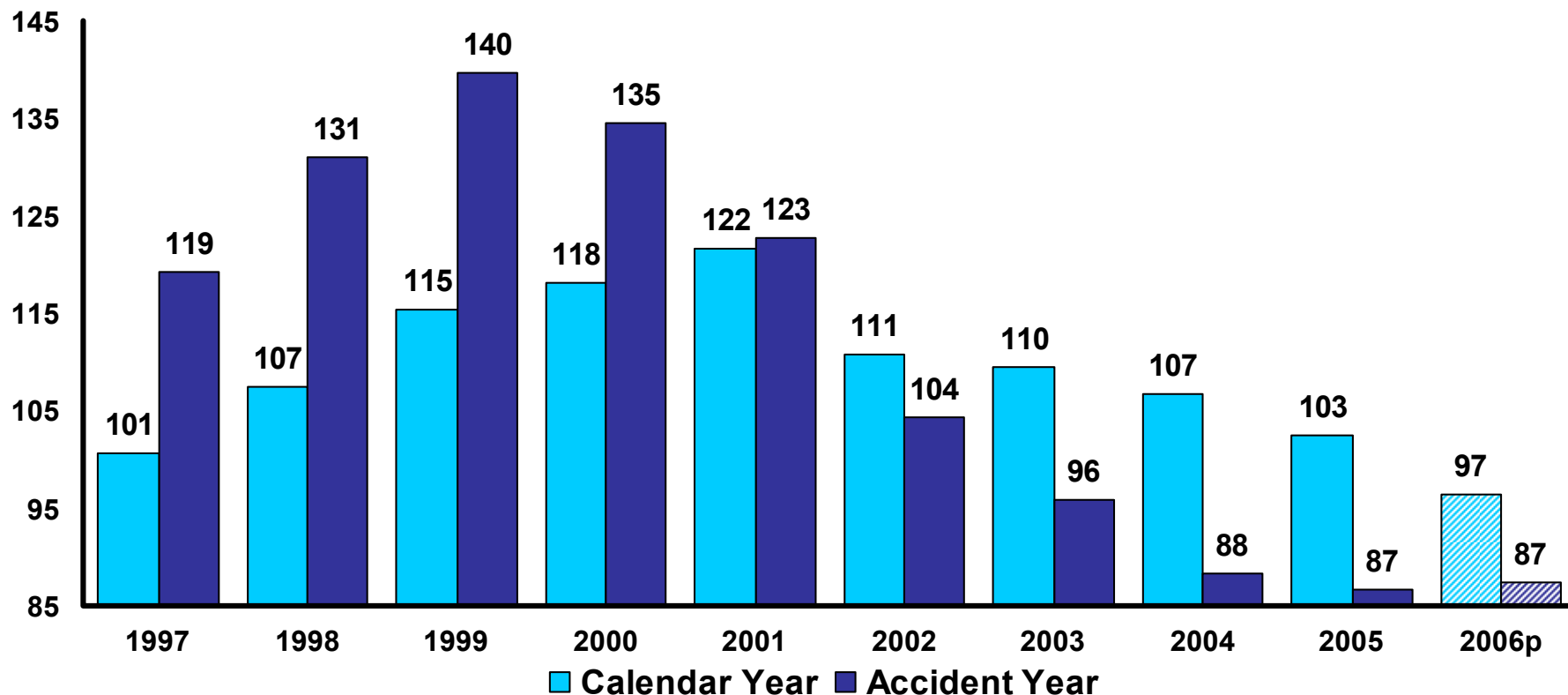
Source: NAIC Annual Statement data



Countrywide Accident Year Combined Ratio— Another Underwriting Profit in 2006

**Workers Compensation—Private Carriers
Calendar Year vs. Ultimate Accident Year**

Percent



p Preliminary

Accident Year data is evaluated as of 12/31/2006 and developed to ultimate

Source: Calendar Years 1997–2005, A.M. Best Aggregates & Averages;

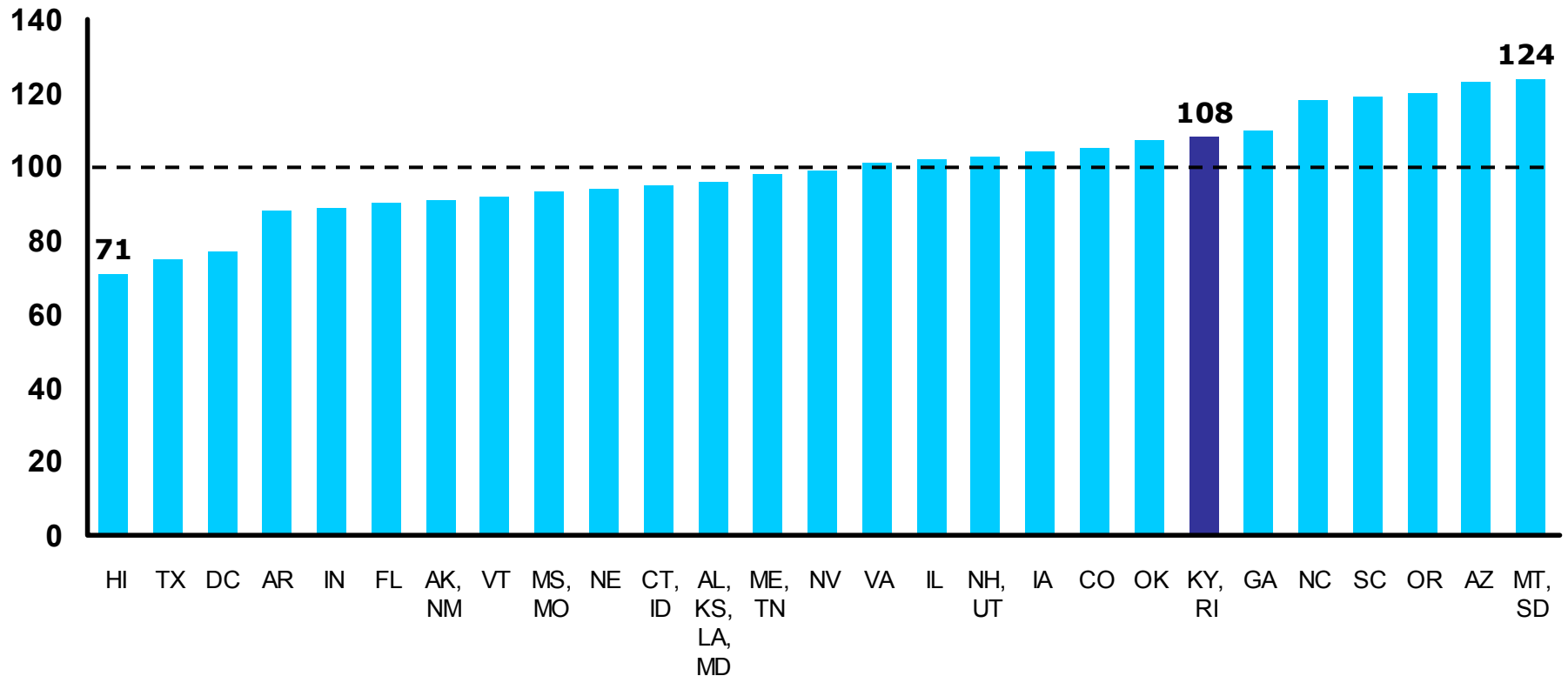
Calendar Year 2006p and Accident Years 1997–2006p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders



Results Vary From State to State

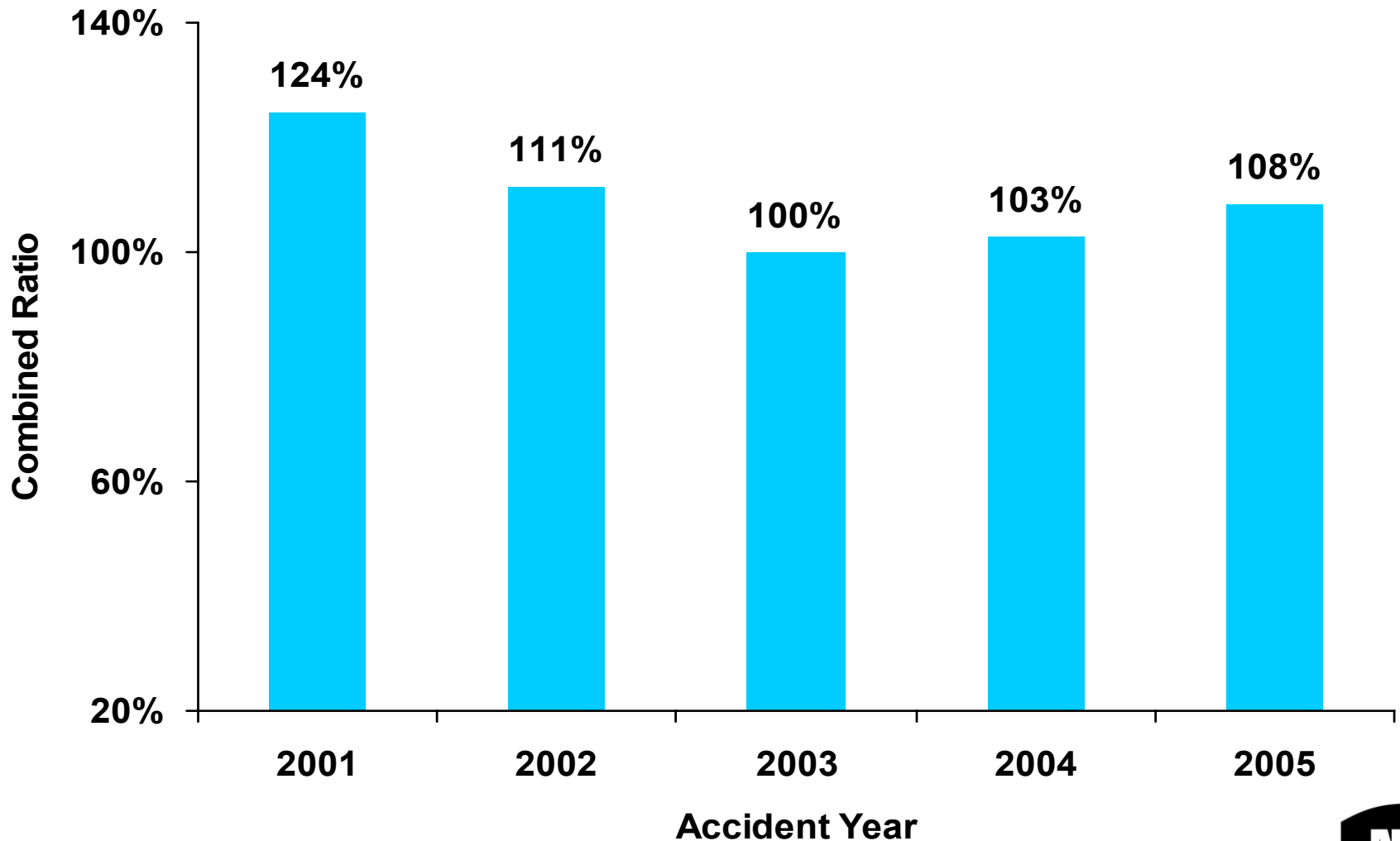
Accident Year 2005 Combined Ratios



Data is evaluated as of 12/31/2005.



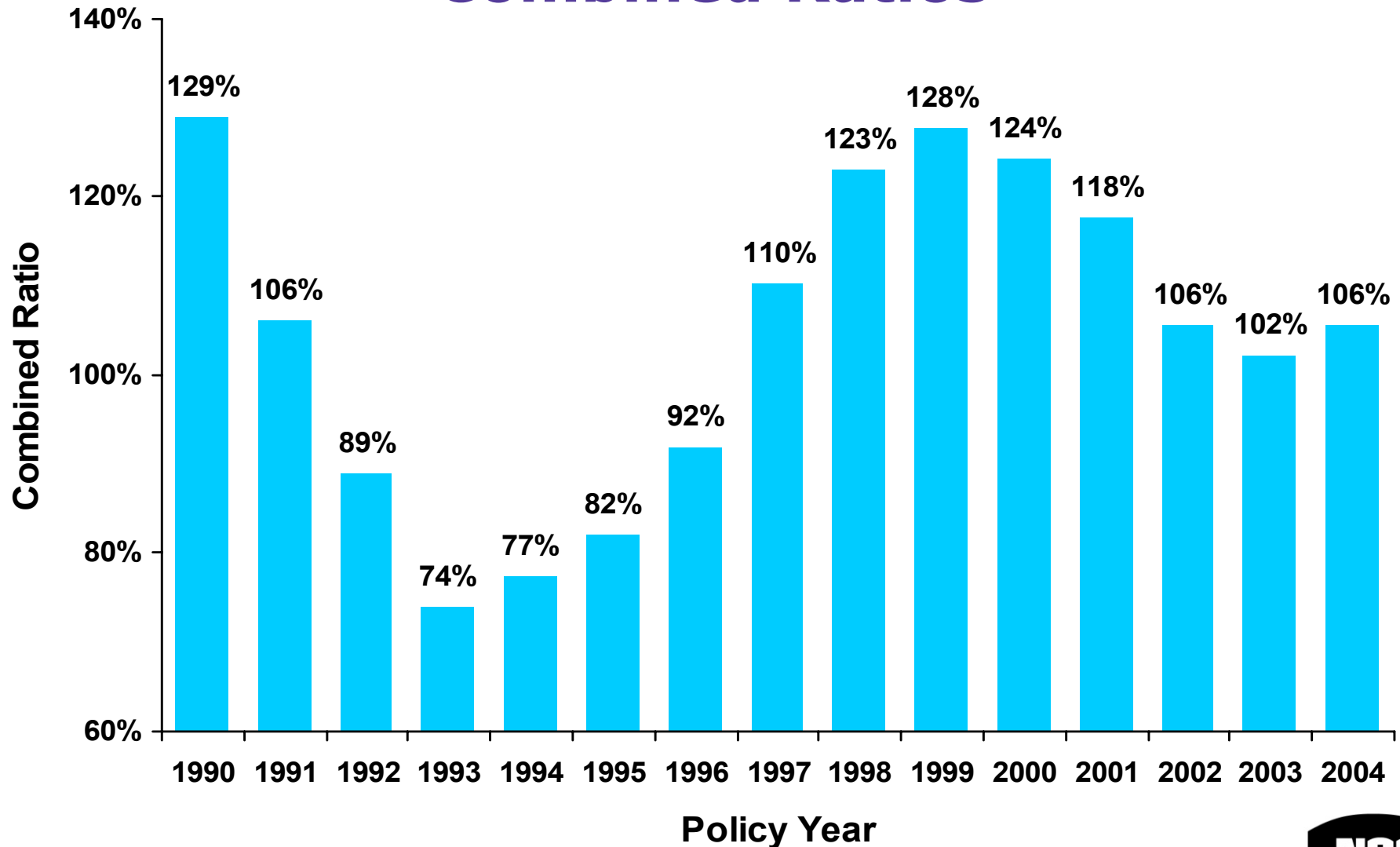
Rhode Island Accident Year Combined Ratios



Source: NCCI financial data, NAIC Annual Statement data



Rhode Island Policy Year Combined Ratios



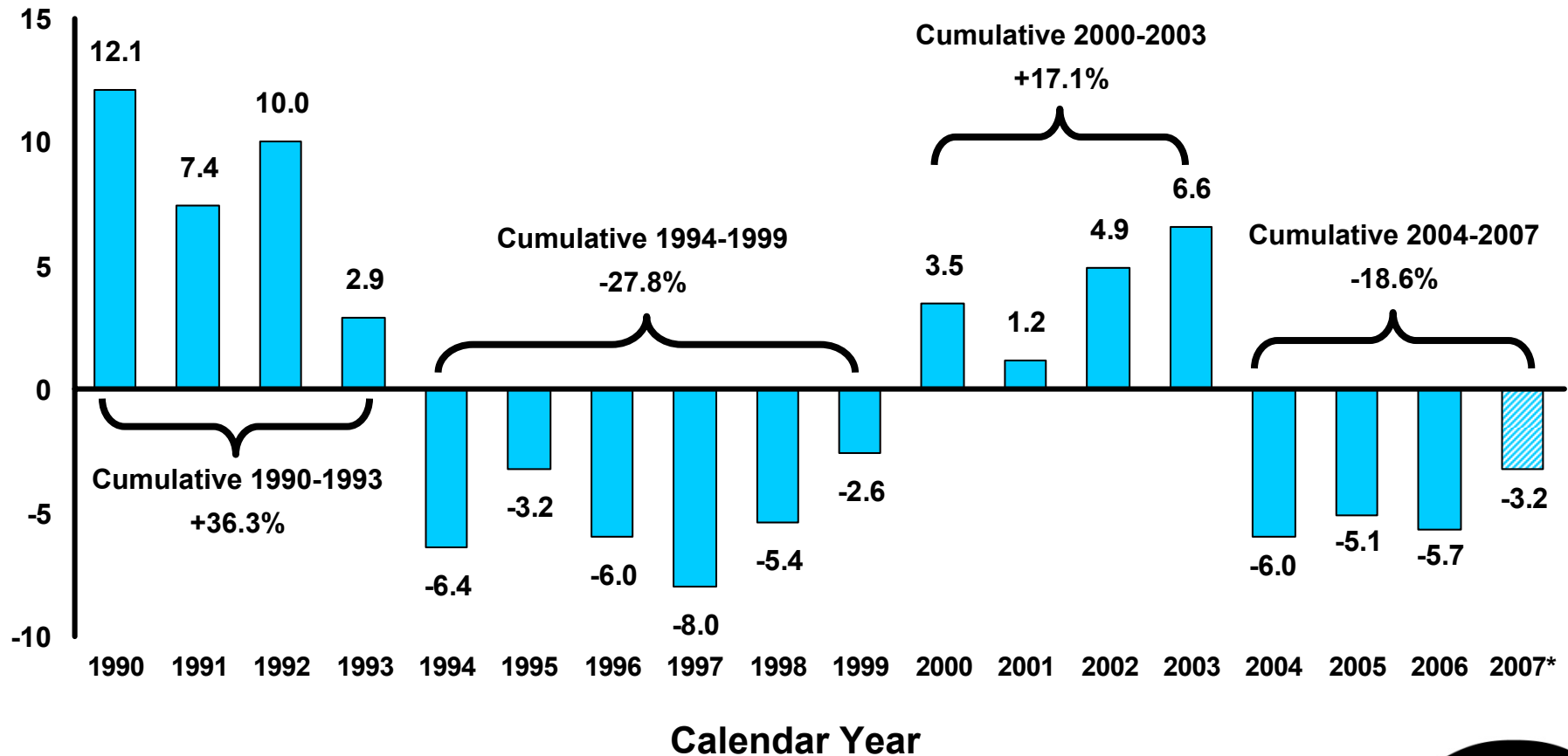
Source: NCCI financial data, NAIC Annual Statement data



Countrywide Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



* Preliminary

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization.



State Voluntary Market Filings

Northeastern States

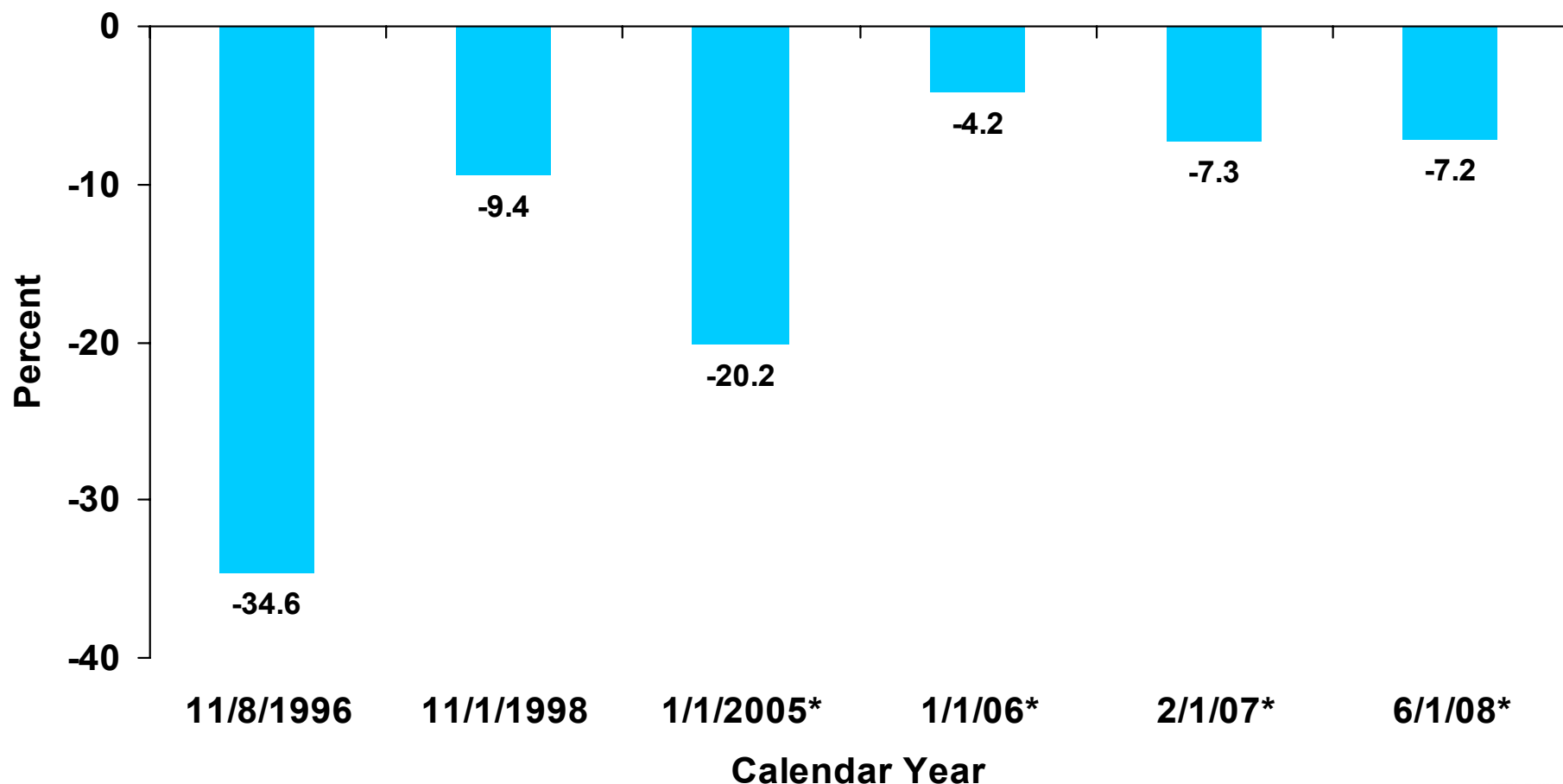
Connecticut	1/1/08	+3.4%
New Jersey	1/1/07	+1.3%
Vermont	4/1/07	-0.6%
Maine	1/1/08	-2.2%
New Hampshire*	1/1/09	-1.9%
Rhode Island	6/1/08	-7.2%
Massachusetts	9/1/07	-16.9%
New York	10/1/07	-18.4%

* Pending



Rhode Island's Filing Activity

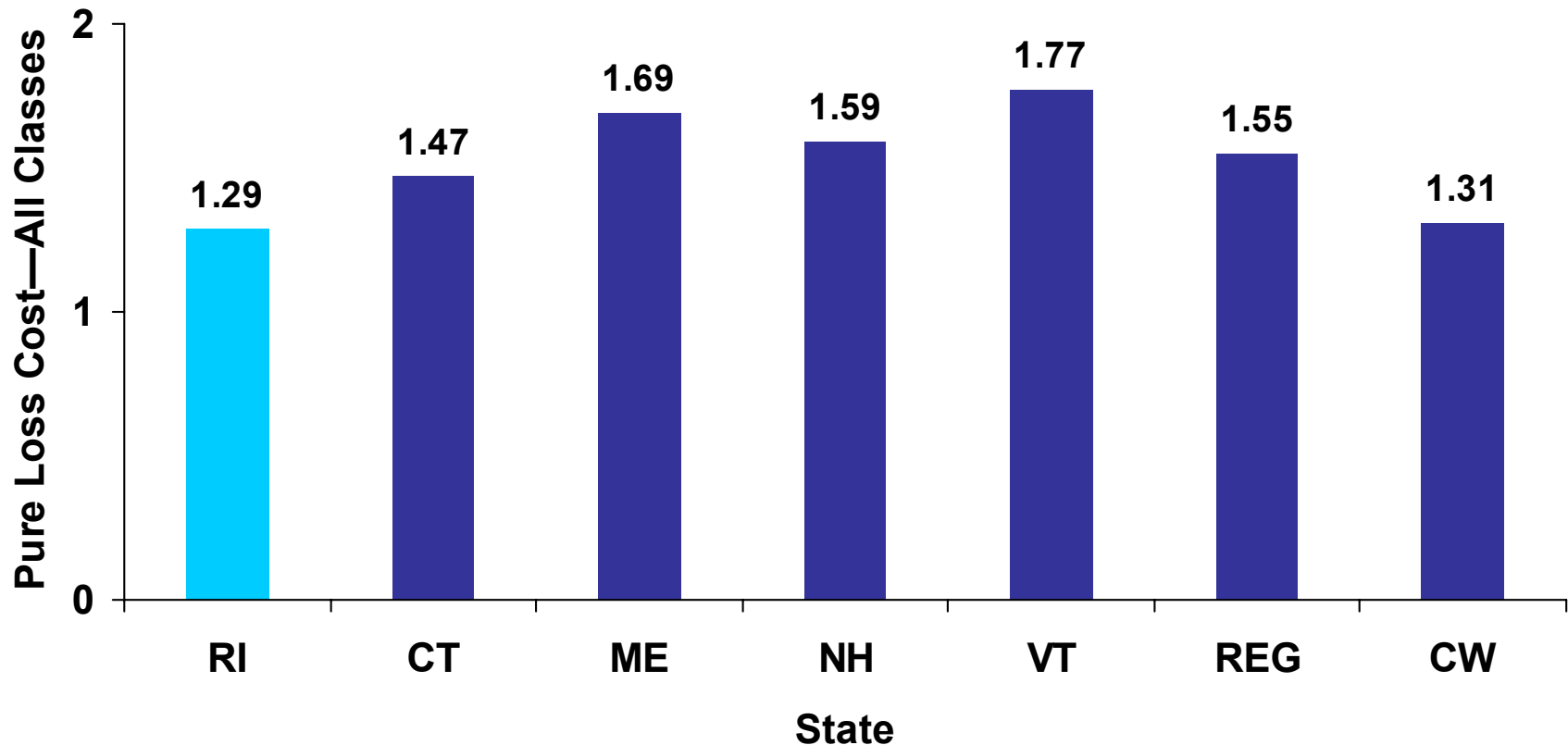
Loss Cost Filing History



* 1/1/05, 1/1/06, and 2/1/07 Loss Cost + LAE



Current Average Voluntary Pure Loss Costs Using Rhode Island's Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states.

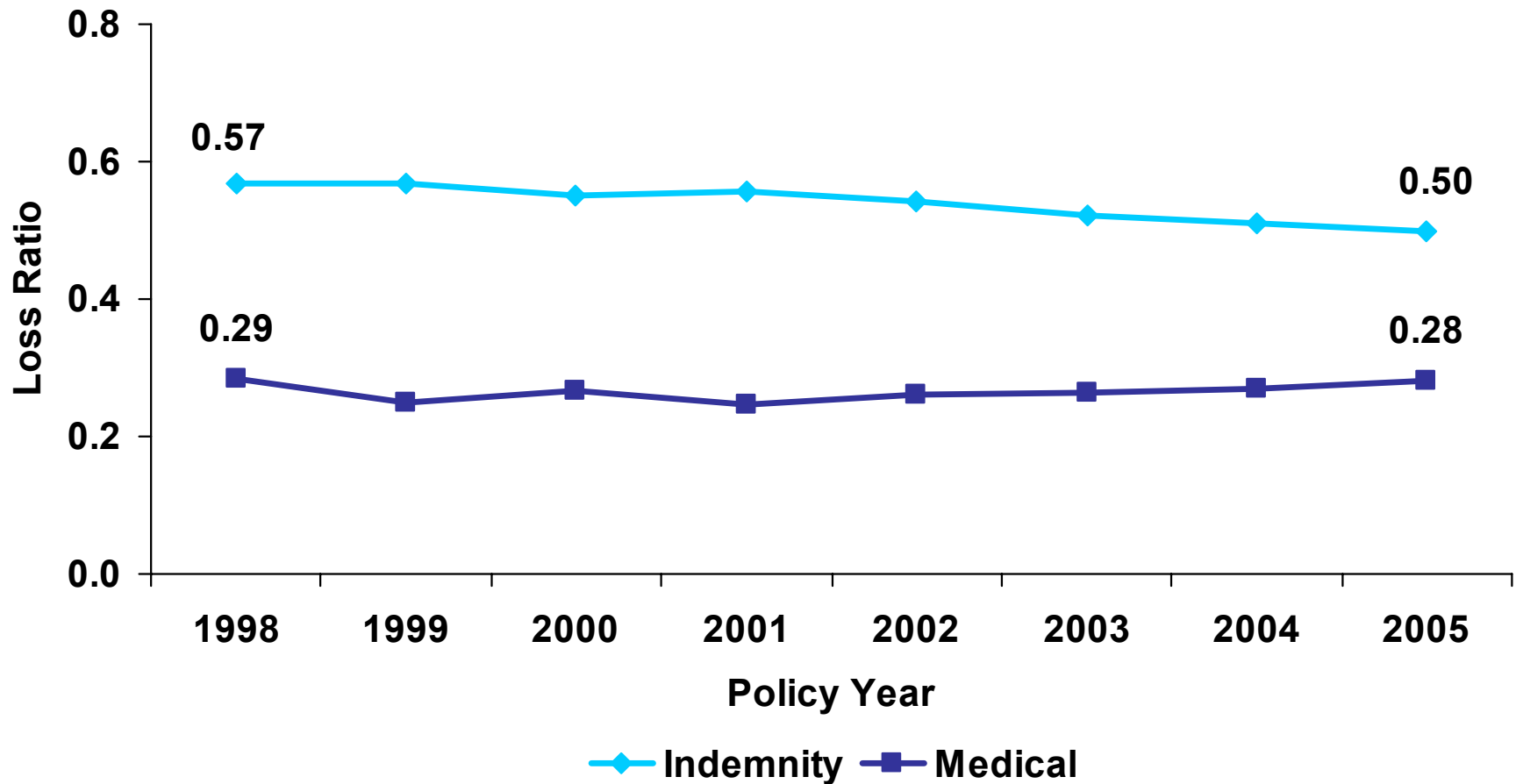


Countrywide Workers Compensation Claim Frequency and Severity

- Countrywide frequency continues to decline. In fact, for each of the last 9 years (and 14 of the last 16), on-the-job claim frequency for workers compensation injuries has declined from the previous year's level.
- Countrywide medical and indemnity costs continue to rise—somewhat negating the good news regarding reduced claims.



Rhode Island's Indemnity and Medical Loss Ratios



Based on NCCI's financial data at current benefit level and developed to ultimate.
Data as of 12/31/2005





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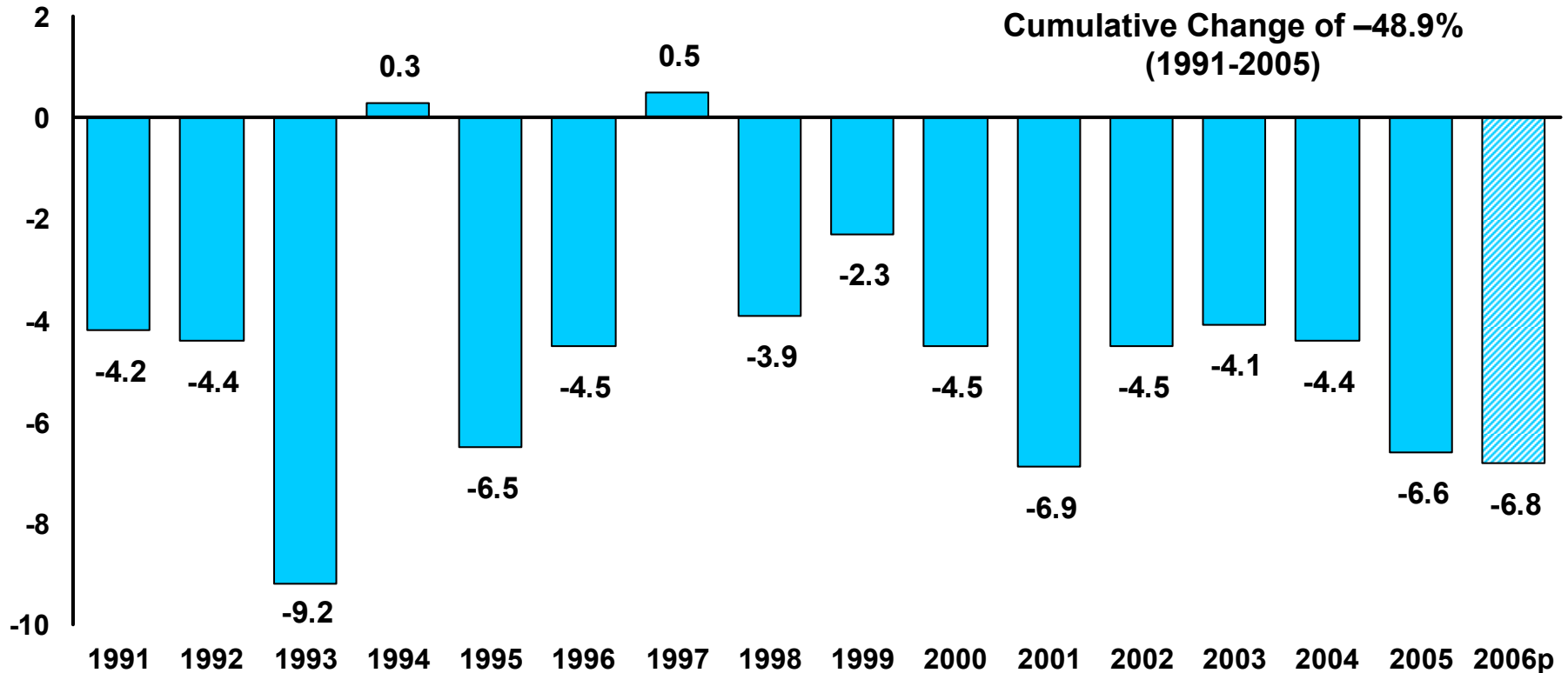
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Claim Frequency

Countrywide Workers Compensation Lost-Time Claim Frequency Continues Its Decline

Percent Change

Lost-Time Claims



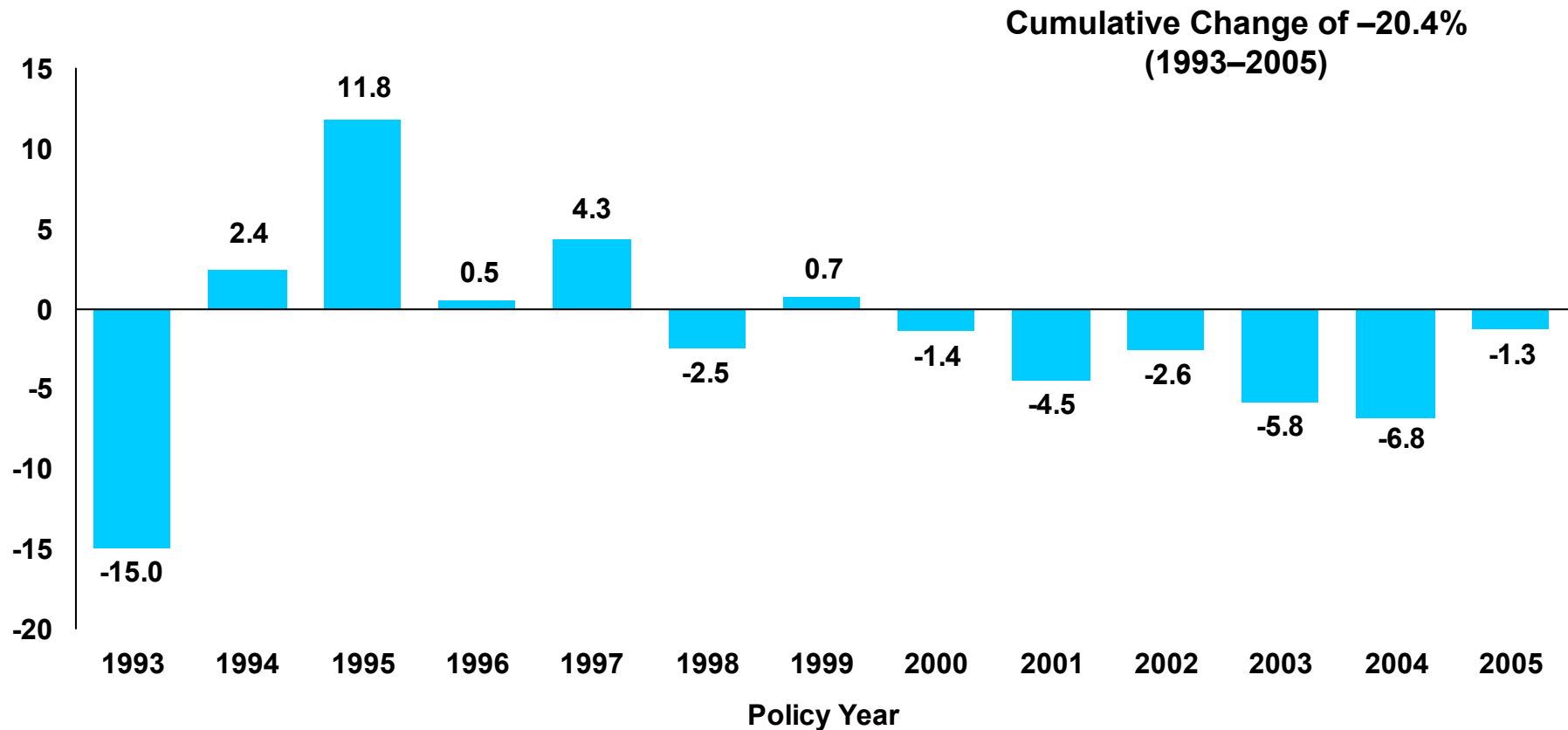
2006p: Preliminary based on data valued as of 12/31/2006
 1991-2005: Based on data through 12/31/2005, developed to ultimate
 Based on the states where NCCI provides ratemaking services.
 Excludes the effects of deductible policies.



Rhode Island Workers Compensation Lost-Time Claim Frequency

Lost-Time Claims

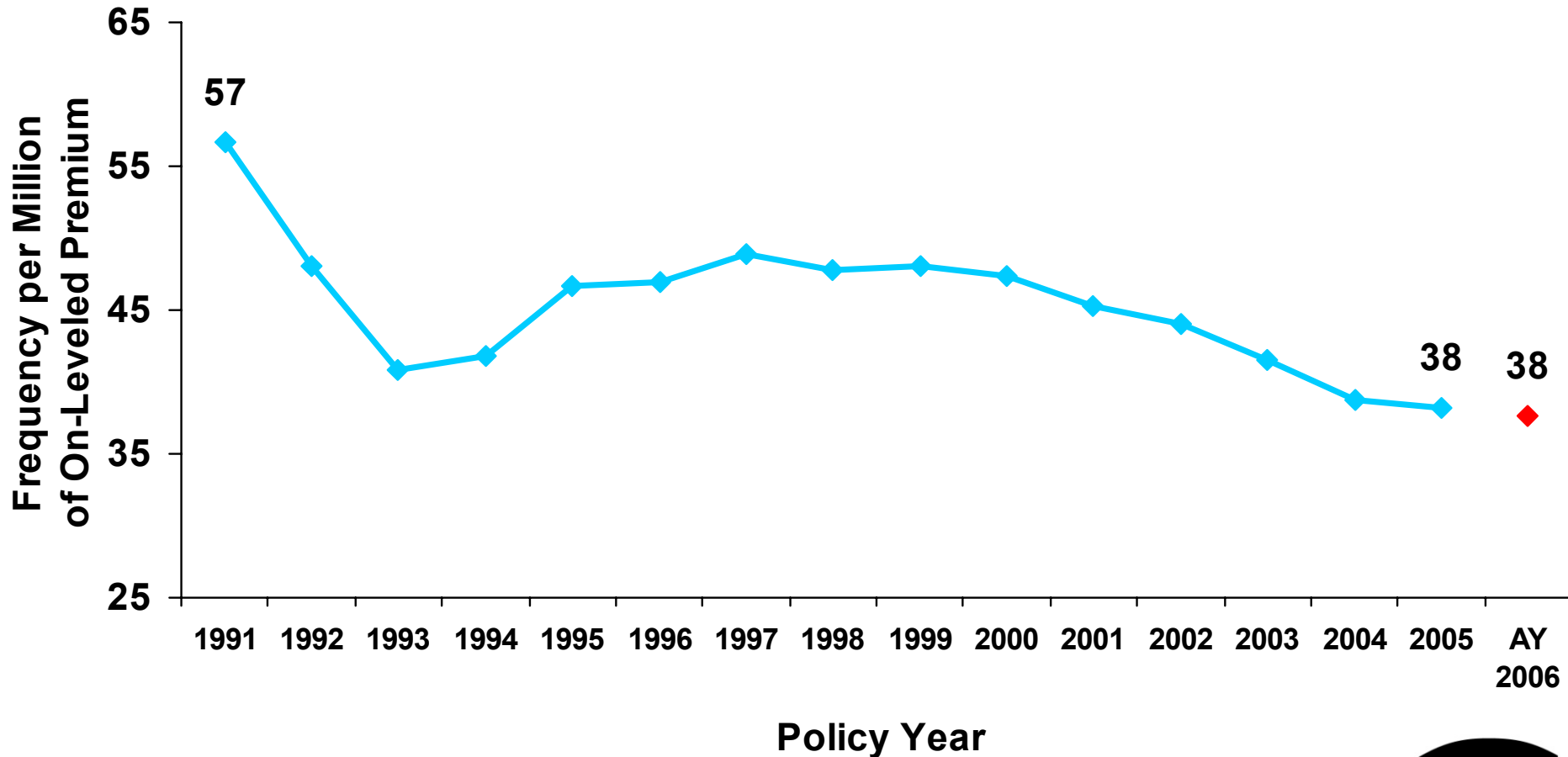
Percent Change



Based on data through 12/31/06, developed to ultimate.



Declines in Claim Frequency Have Contributed to Rhode Island's Improving Results

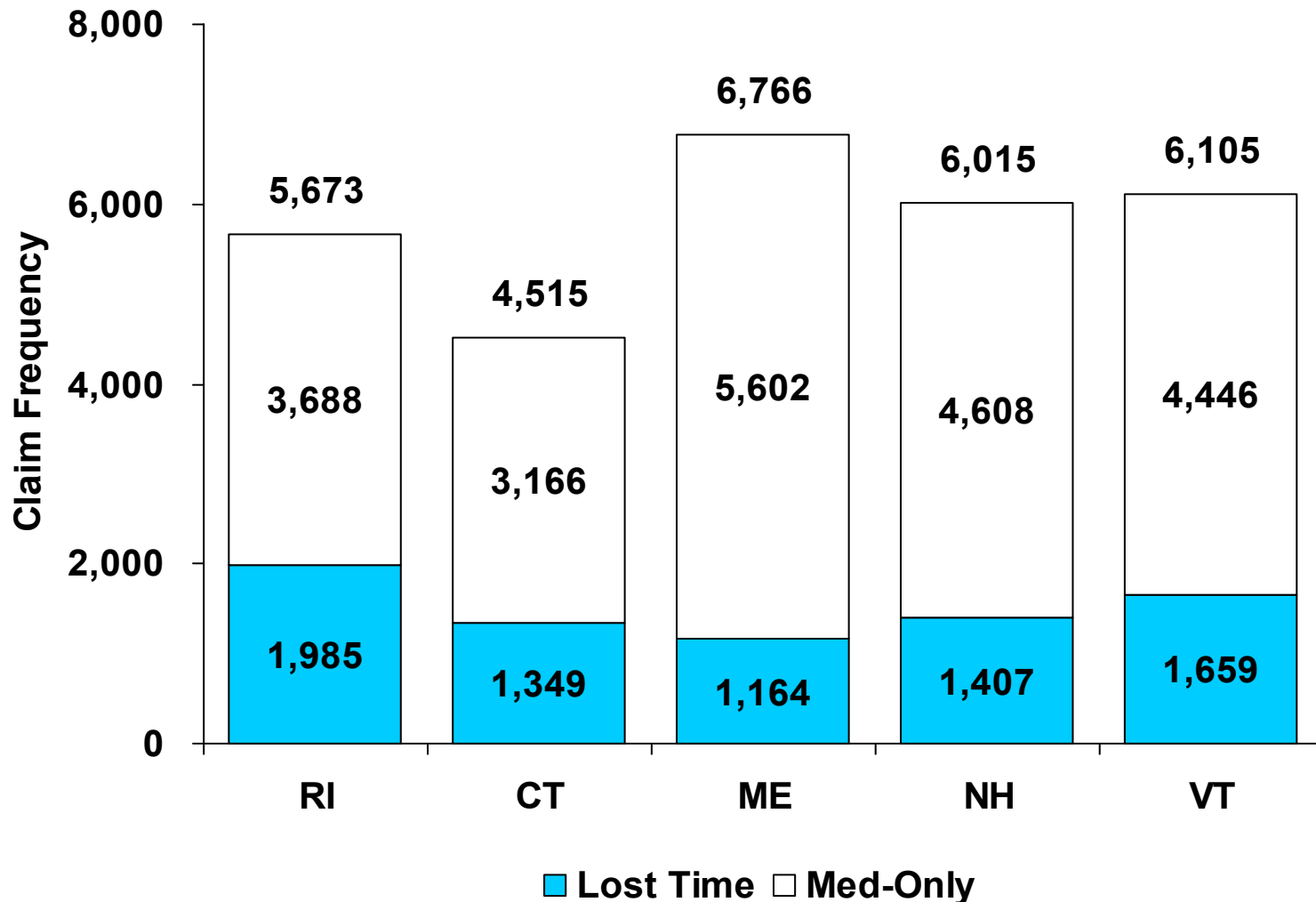


Based on NCCI's financial data.
Frequency of lost-time claims.



Rhode Island Average Claim Frequency

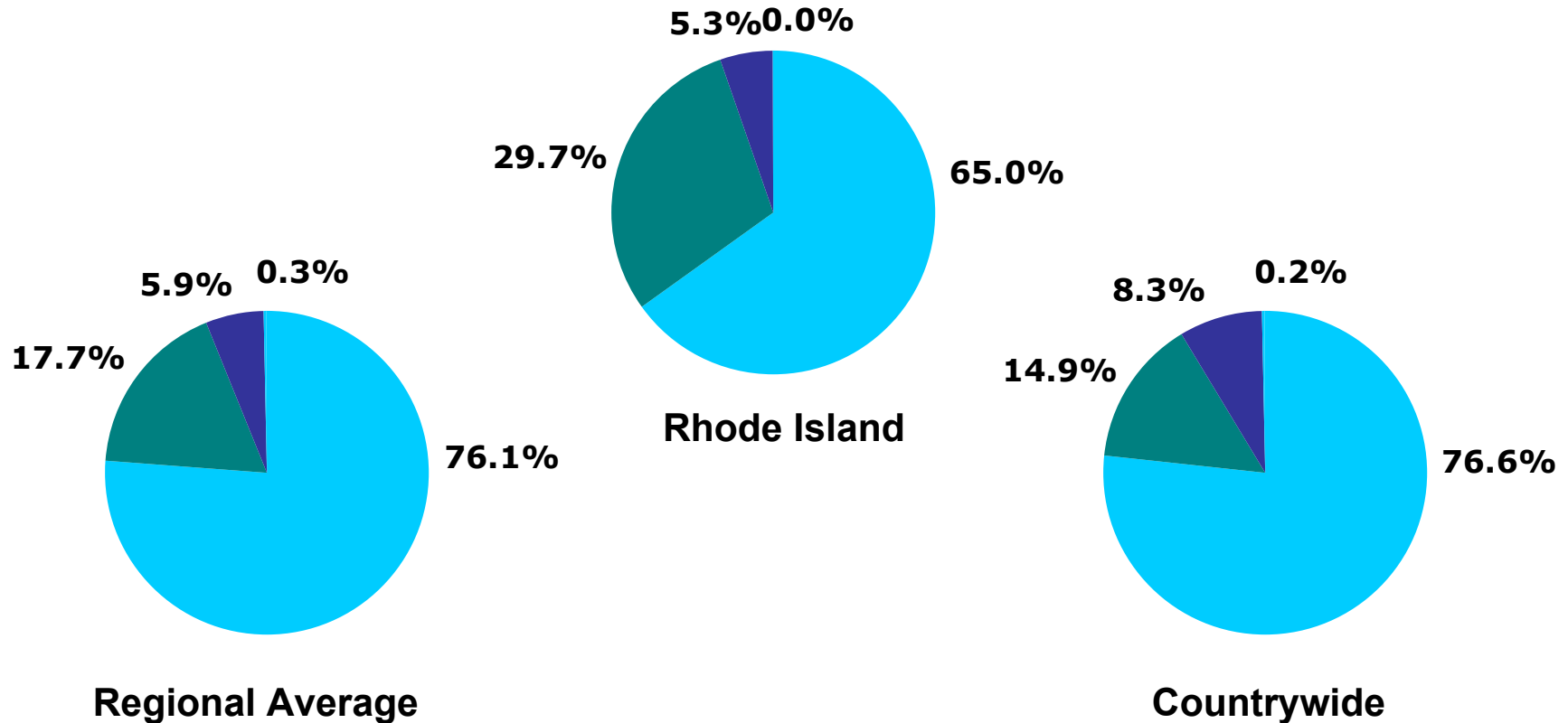
Frequency per 100,000 Workers—All Claims



Based on NCCI's WCSP data.



Rhode Island's Distribution of Claims by Injury Type



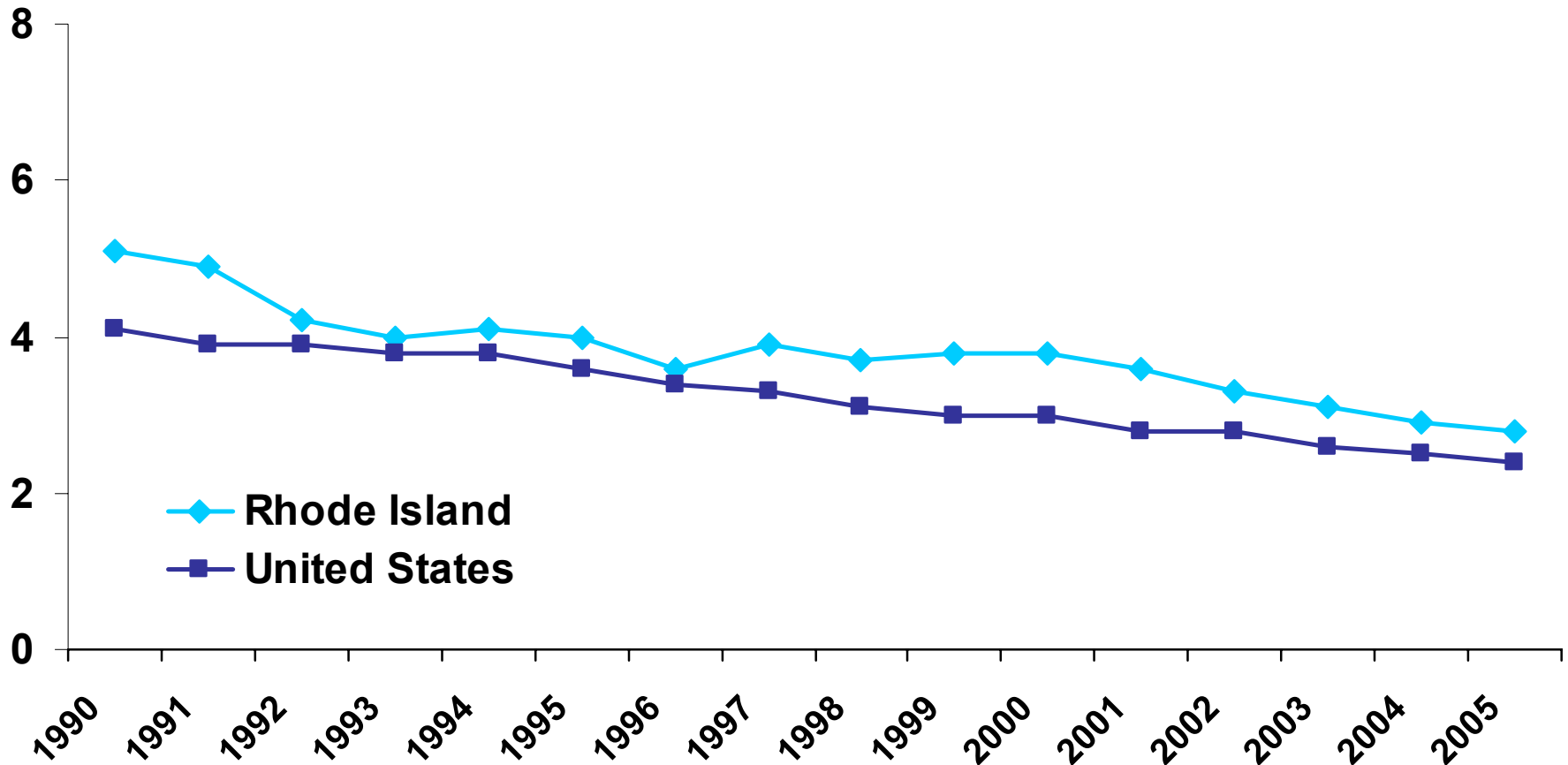
■ Medical Only ■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

Regional states are Idaho, Nevada, Oregon, South Dakota, Utah.
Based on NCCI's WCSP data.



Incidence Rates Are Continuing to Trend Lower in Both Rhode Island and the U.S.

Cases With Days Away from Work, Job Transfer, or Restriction
per 100 Full-time Workers, Private Industry



Source: U.S. Bureau of Labor Statistics



The Change in Frequency Over the Business Cycle

Frequency Tracks With the Business Cycle

Because

Time on the Job and Experience Matter

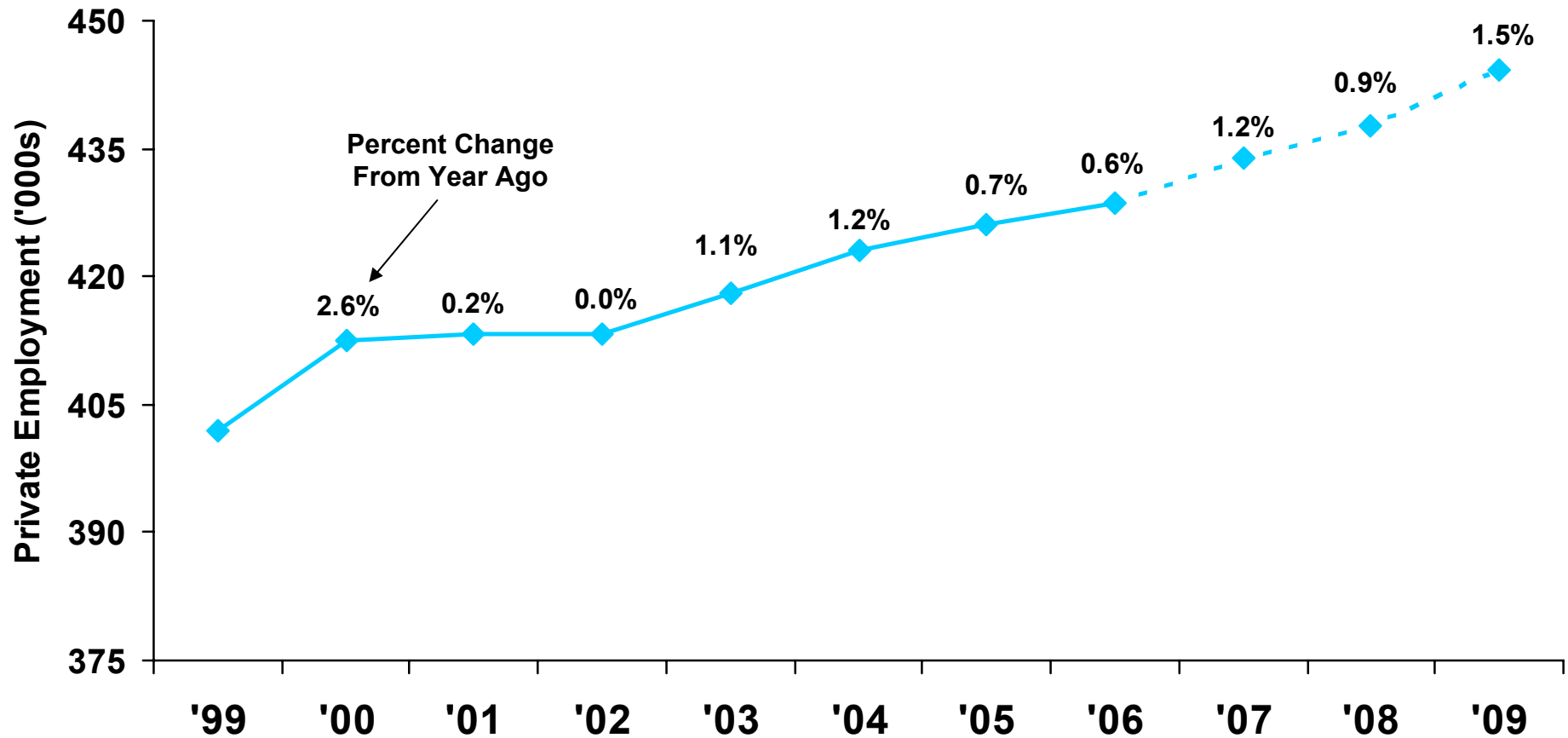


Frequency of Injuries: Experience Matters

**Inexperienced Have a Disproportionately
High Share of Total Injuries**

Time With Current Employer	Share of Employment (2006)	Share of All Injuries (2005)	Relative Difference Share of Injuries vs. Employment
Less Than 1 Year	24.4%	35.0%	43.6% : Higher
1–5 Years	36.8%	34.1%	-7.3% : Lower
5+ Years	38.8%	30.9%	-20.5% : Lower

Continued Increases in Private Employment in Rhode Island Are Expected Through 2009

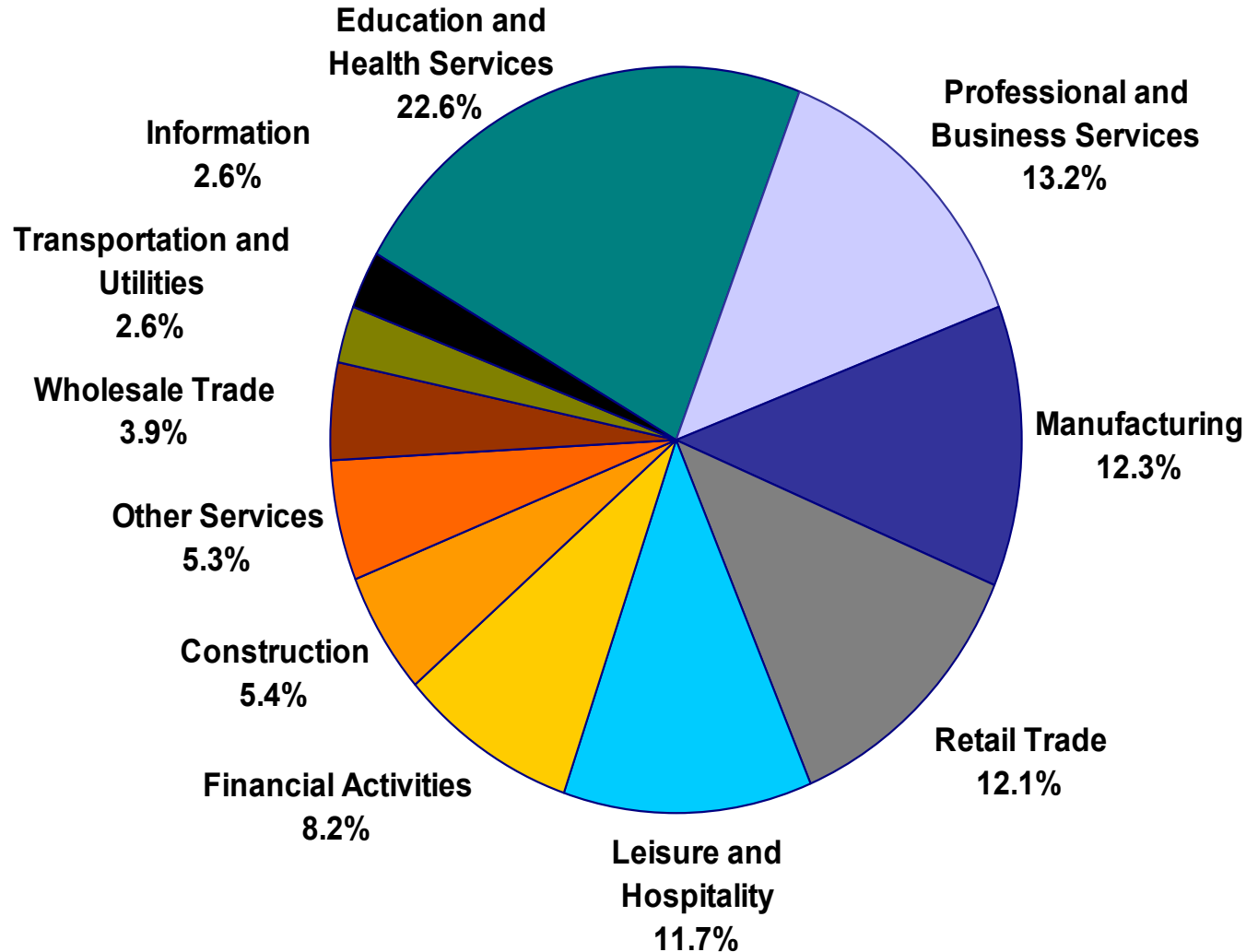


Source: Moody's Economy.com; U.S. Bureau of Labor Statistics



Private Employment in Rhode Island

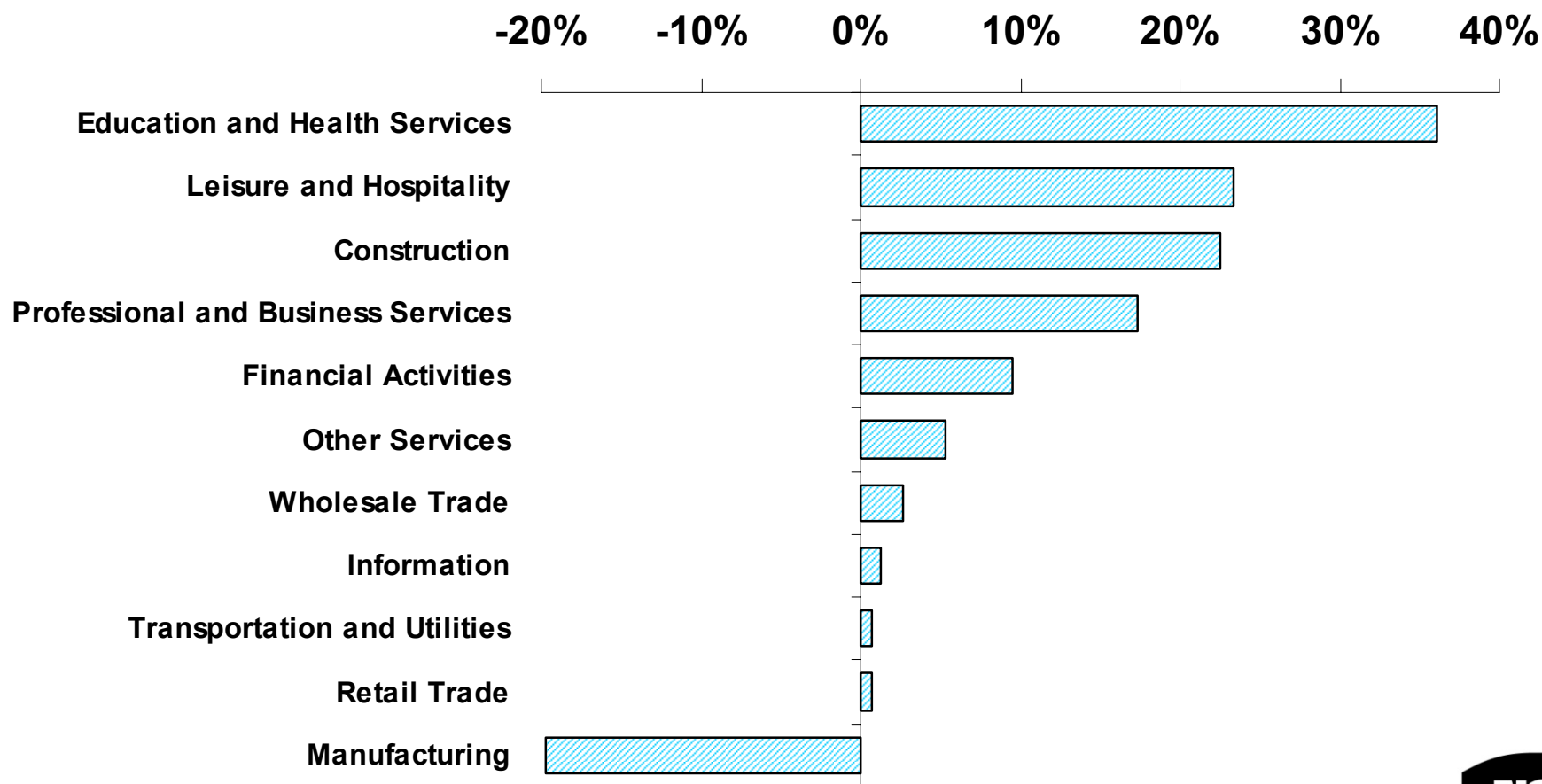
2006



Source: U.S. Bureau of Labor Statistics

Much of Rhode Island's Job Growth Is Expected to Come From the Education and Health Services Sector

Percentage Contribution to Change in Employment, 2006-2009



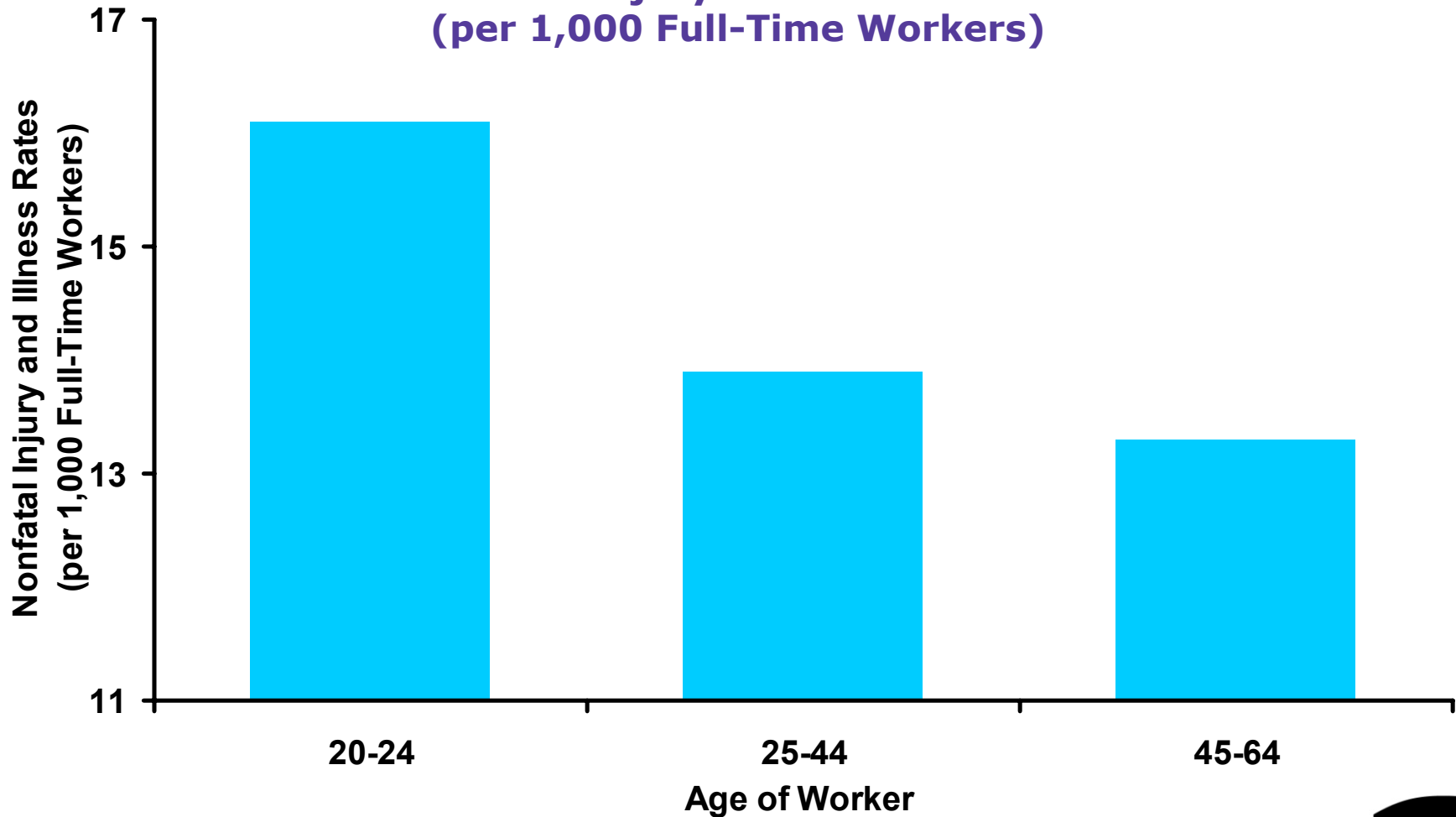
Source: Moody's Economy.com

Impact of Demographics on Frequency



Frequency Is Inversely Related to the Age of the Worker

Nonfatal Injury and Illness Rates
(per 1,000 Full-Time Workers)

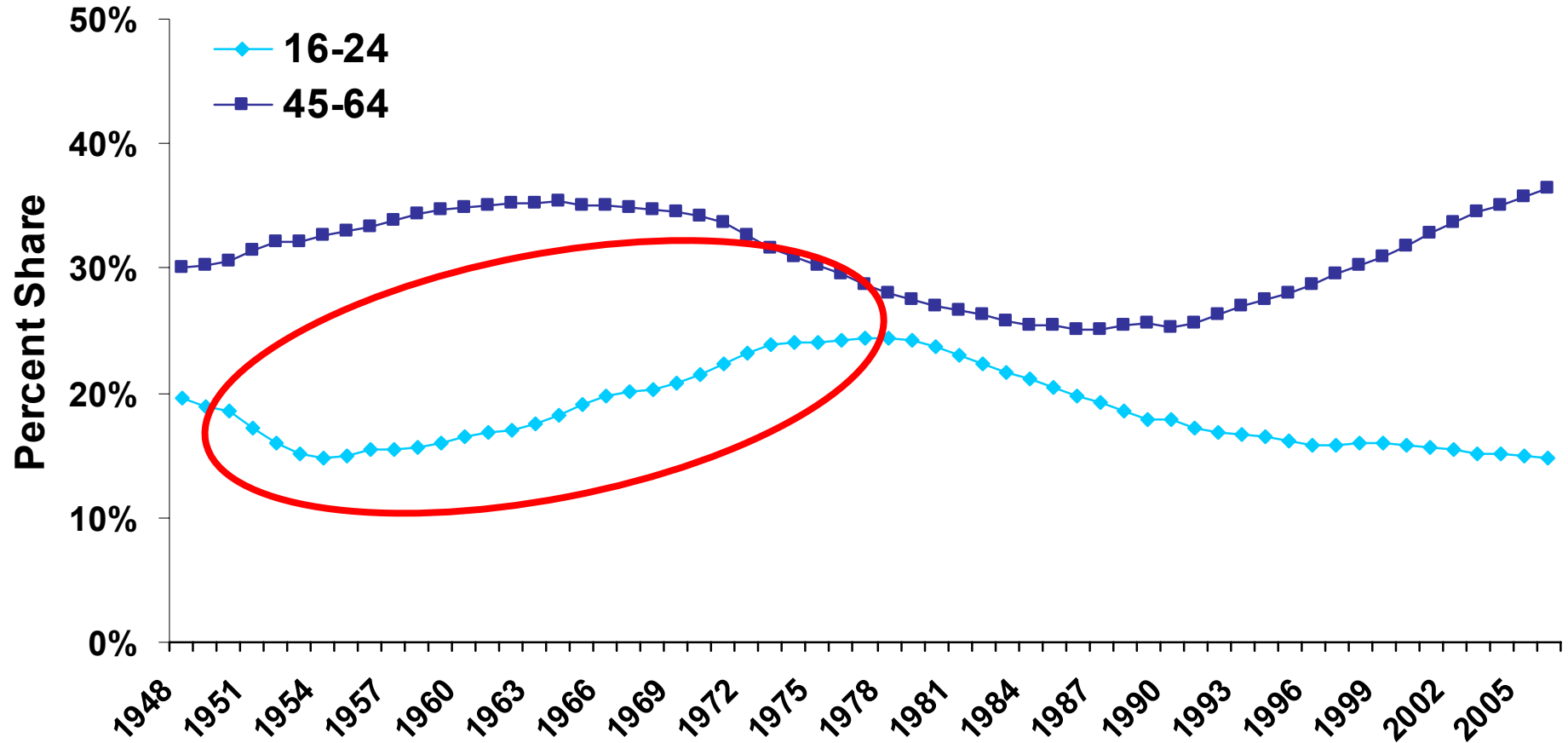


Source: NCCI estimate using data from the U.S. Bureau of Labor Statistics
Calculated from cases with Days Away From Work, 2003-2005



High and Low Frequency Age Groups

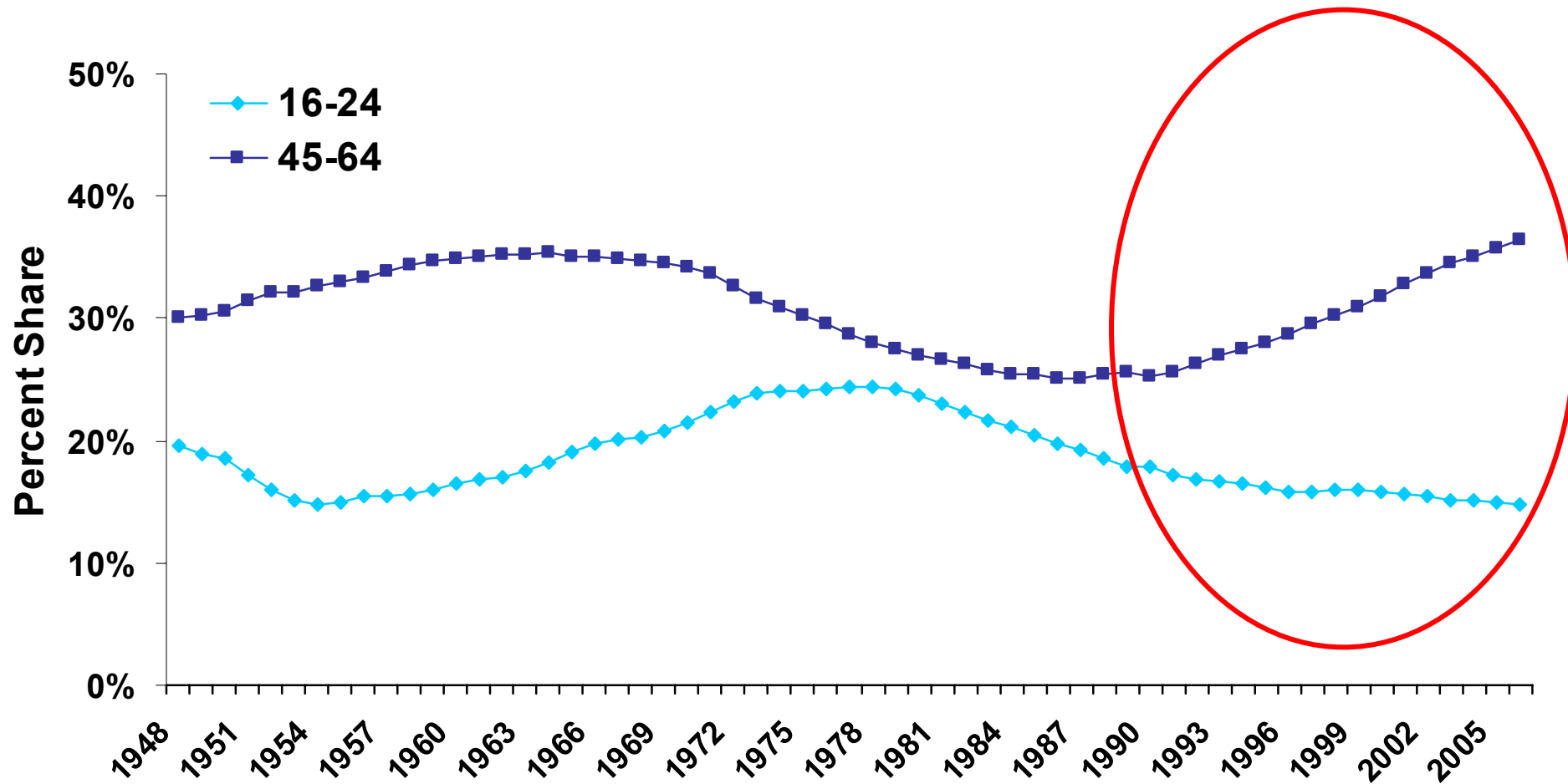
Age Distribution of Labor Force 16-24 vs. 45-64



Source: U.S. Bureau of Labor Statistics

High and Low Frequency Age Groups

Age Distribution of Labor Force 16-24 vs. 45-64

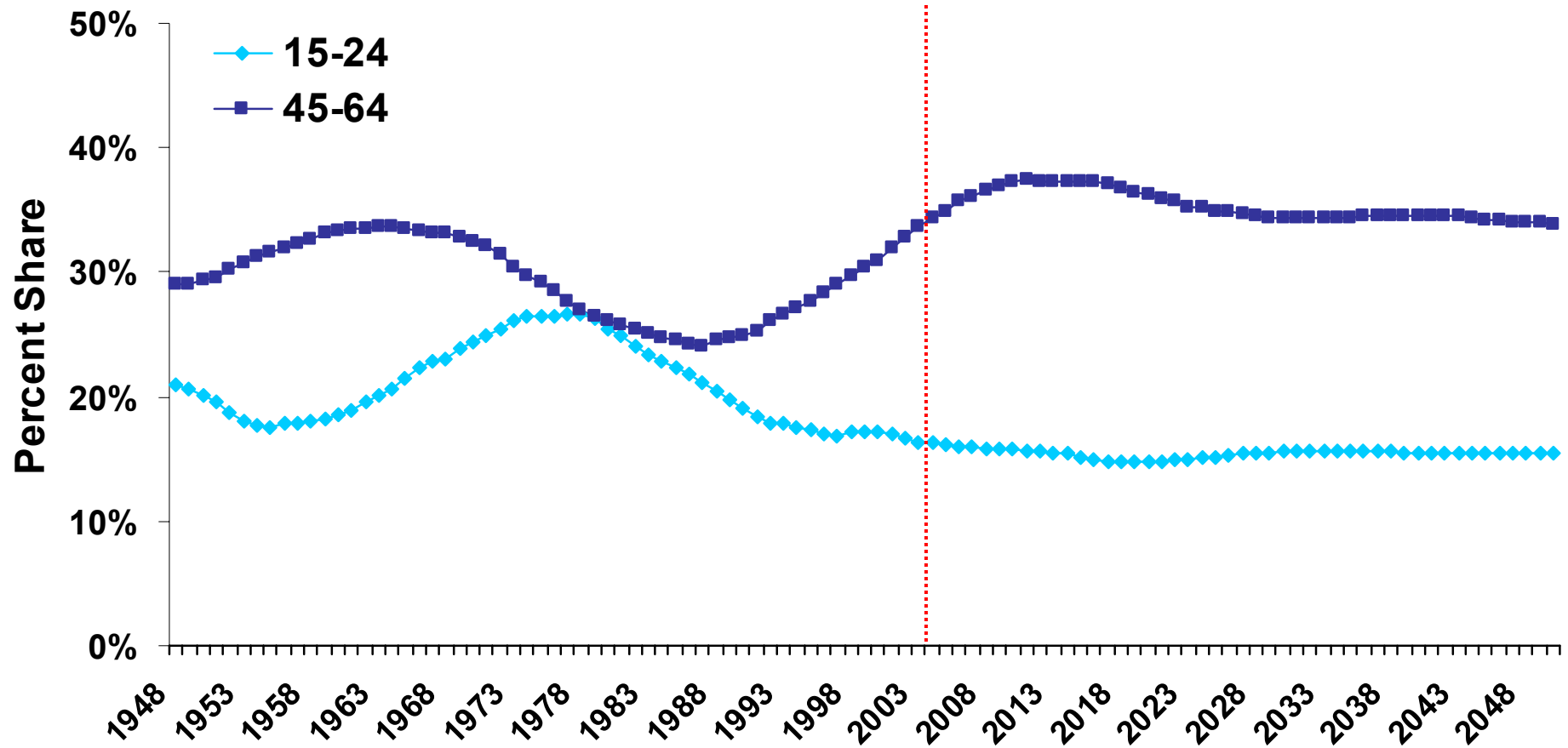


Source: U.S. Bureau of Labor Statistics



Forecasts of Labor Force Shares Show Only Small Changes in the Future

Percent of the Labor Force



Source: NCCI; derived data for all years (including historical period)

Estimates obtained by multiplying labor force participation rates by age cohort (from U. S Bureau of Labor Statistics) by the population for each cohort (historical and projected population data from the U.S. Census Bureau). Participation rates are only available through 2006, so 2006 values were used for future years.



Impact of Age on Frequency Trends: Key Takeaways

- Younger workers tend to have higher claim frequency than older workers
- The entering and exiting of baby boomers from the workforce help to explain broad changes in claim frequency since the early 1960s
- Projections of the age distribution of the labor force suggest that age will play a more neutral role in frequency changes in the coming years



Factors Affecting the Long-Term Downtrend in Frequency



Why Frequency Has Been Trending Lower

- Continuing improvement in productivity
- Impact of global competition
- Technology
- Indirect impacts of OSHA



The Change in Frequency Since the Early 1990s

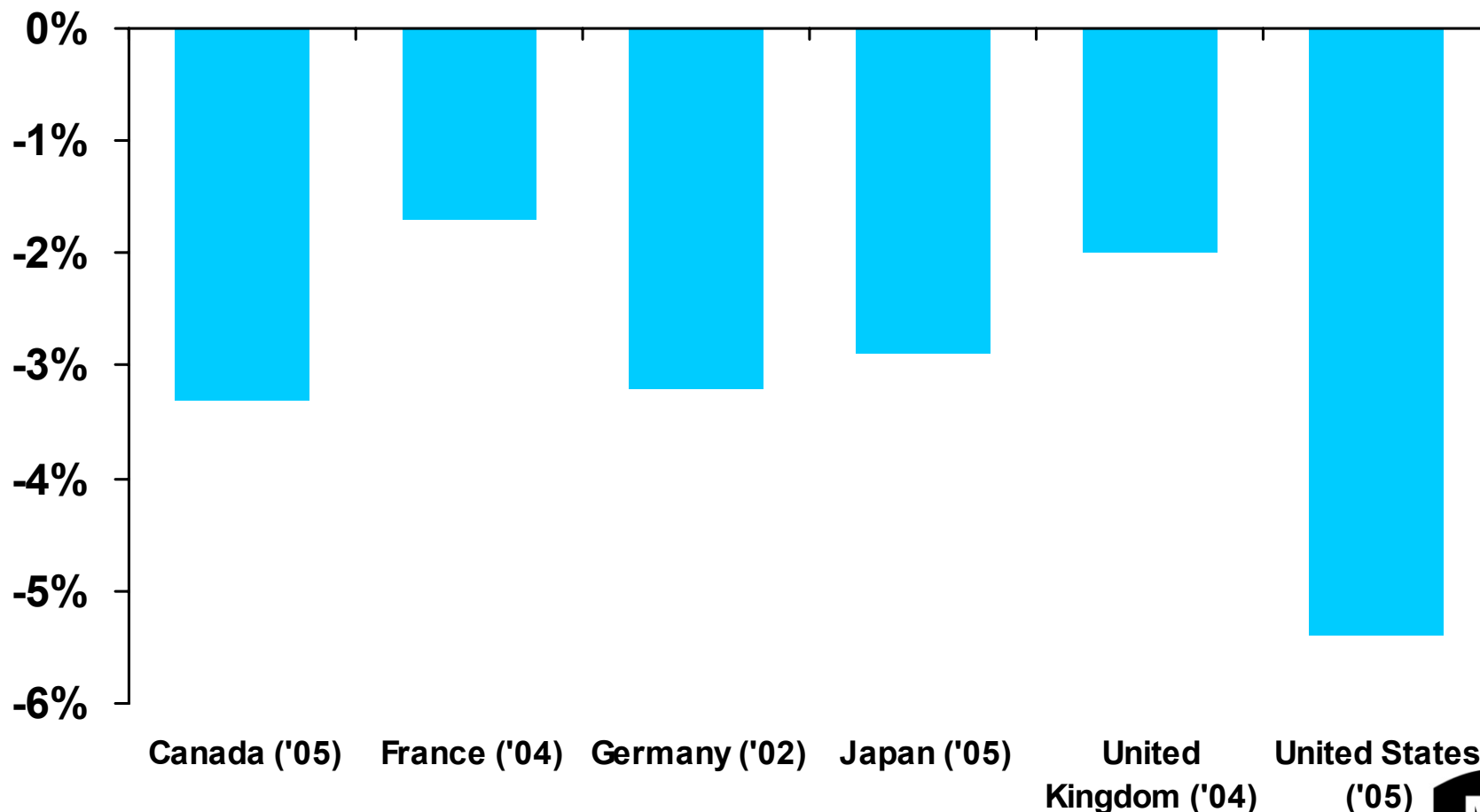
The key findings of NCCI research indicate that the decline is broadly-based:

- Across virtually all states
- Across industries and occupations and
- Across virtually all “injury demographics” including
 - Gender
 - Event
 - Source
 - Body part injured



Injury Incidence Rates Are Declining in Major Industrial Nations

Average Annual Percent Decline in Nonfatal Injury Incidence Rates,
Latest Available Year vs. 1996



Source: International Labor Organization.
Number in parenthesis is the latest year for which data are available.

Key Takeaways— Drivers of Claim Frequency

- Prospects for claim frequency partly reflect the strength of the business cycle/employment growth
- Analysis for Rhode Island suggests the economy will exert modest upward pressure on claim frequency in the coming years
- Younger workers tend to have higher claim frequency
- Age is likely to be less of a factor in affecting claim frequency going forward than previously
- Continued downward pressure on claim frequency is likely as a result of ongoing impacts from globalization and productivity improvement





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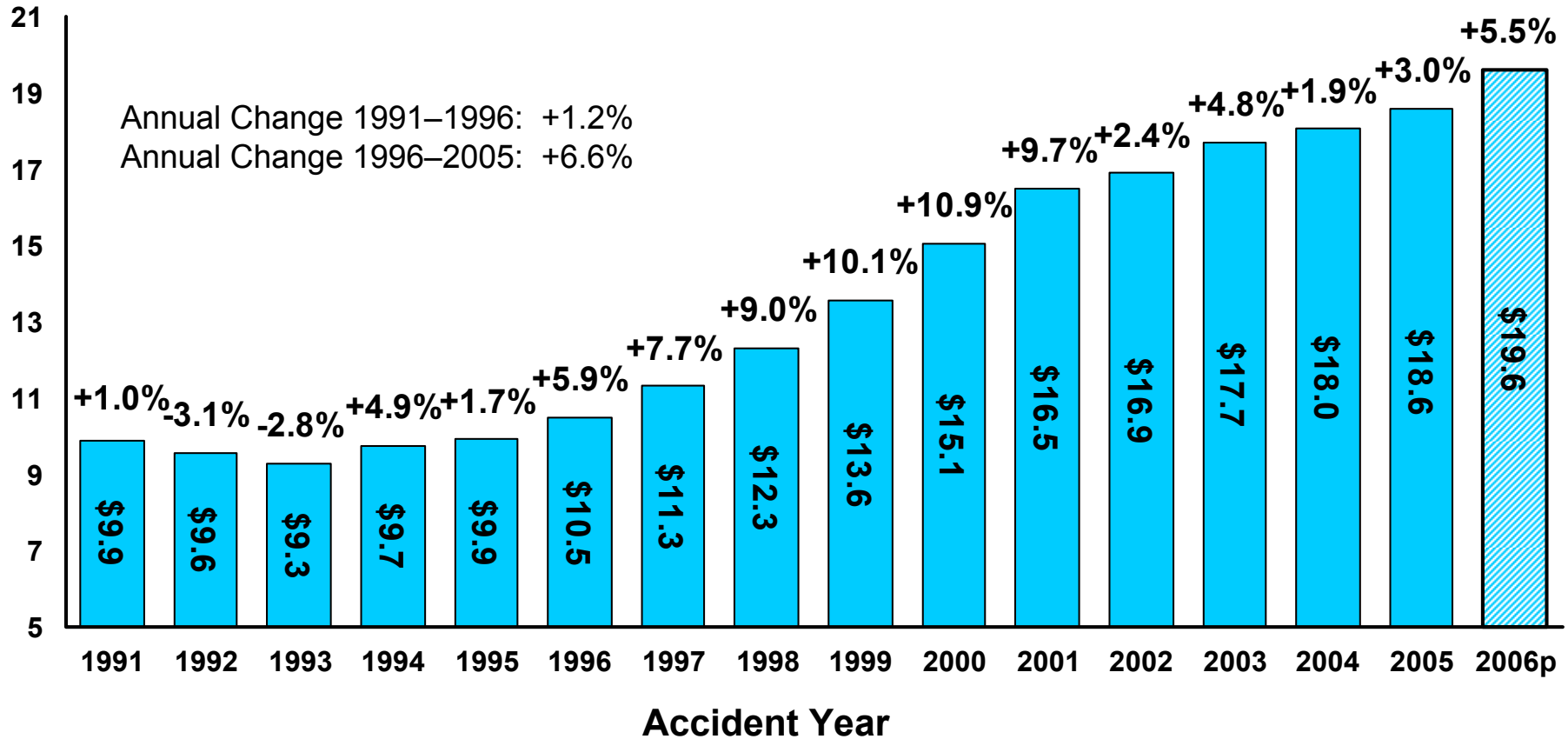
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Indemnity Severity

Countrywide Workers Compensation Indemnity Claim Costs

Lost-Time Claims

Indemnity
Claim Cost (000s)



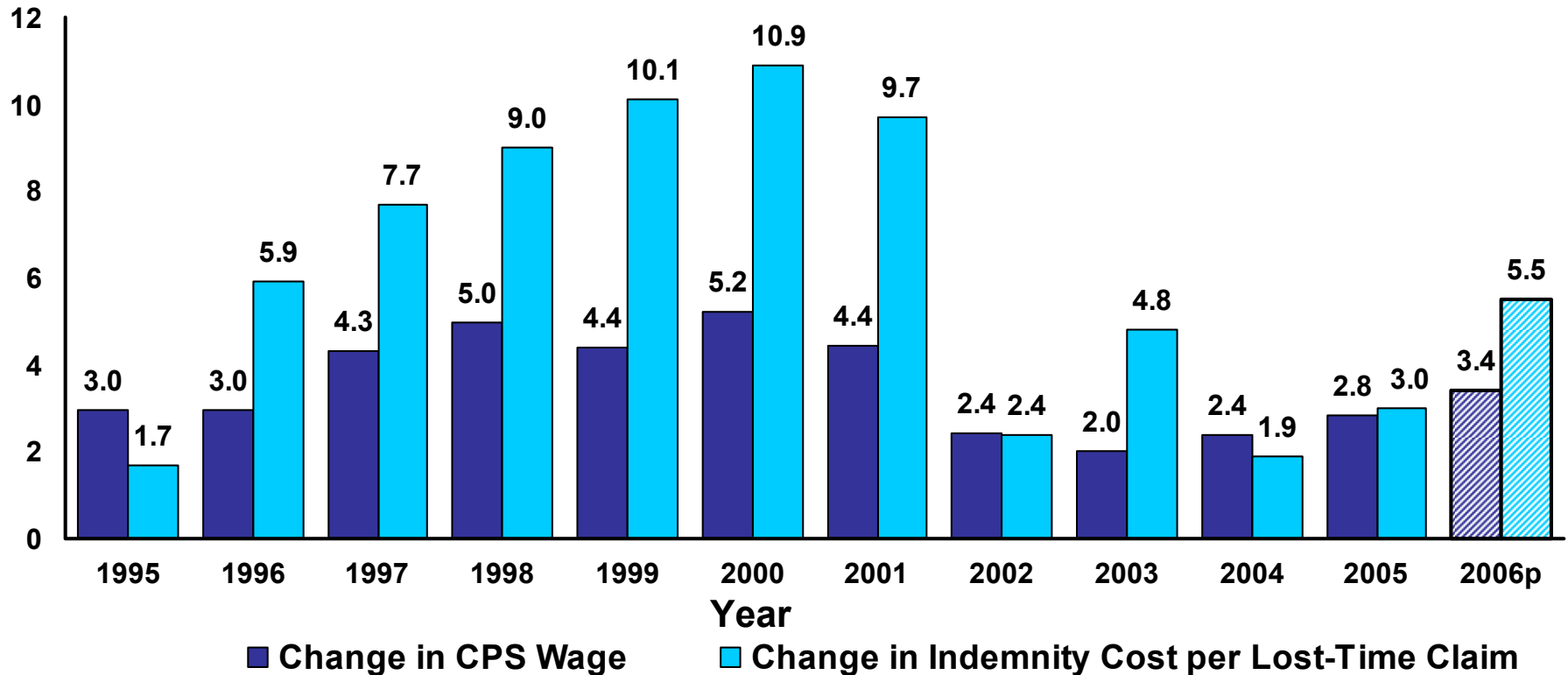
2006p: Preliminary based on data valued as of 12/31/2006
1991–2005: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services.
Excludes the effects of deductible policies.



Countrywide Indemnity Severity Outpacing Wage Inflation in 2006

Lost-Time Claims

Percent Change



Indemnity severity 2006p: Preliminary based on data valued as of 12/31/2006

Indemnity severity 1995–2005: Based on data through 12/31/2005, developed to ultimate

Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies.

Source: CPS Wage—All states (Current Population Survey), Economy.com;

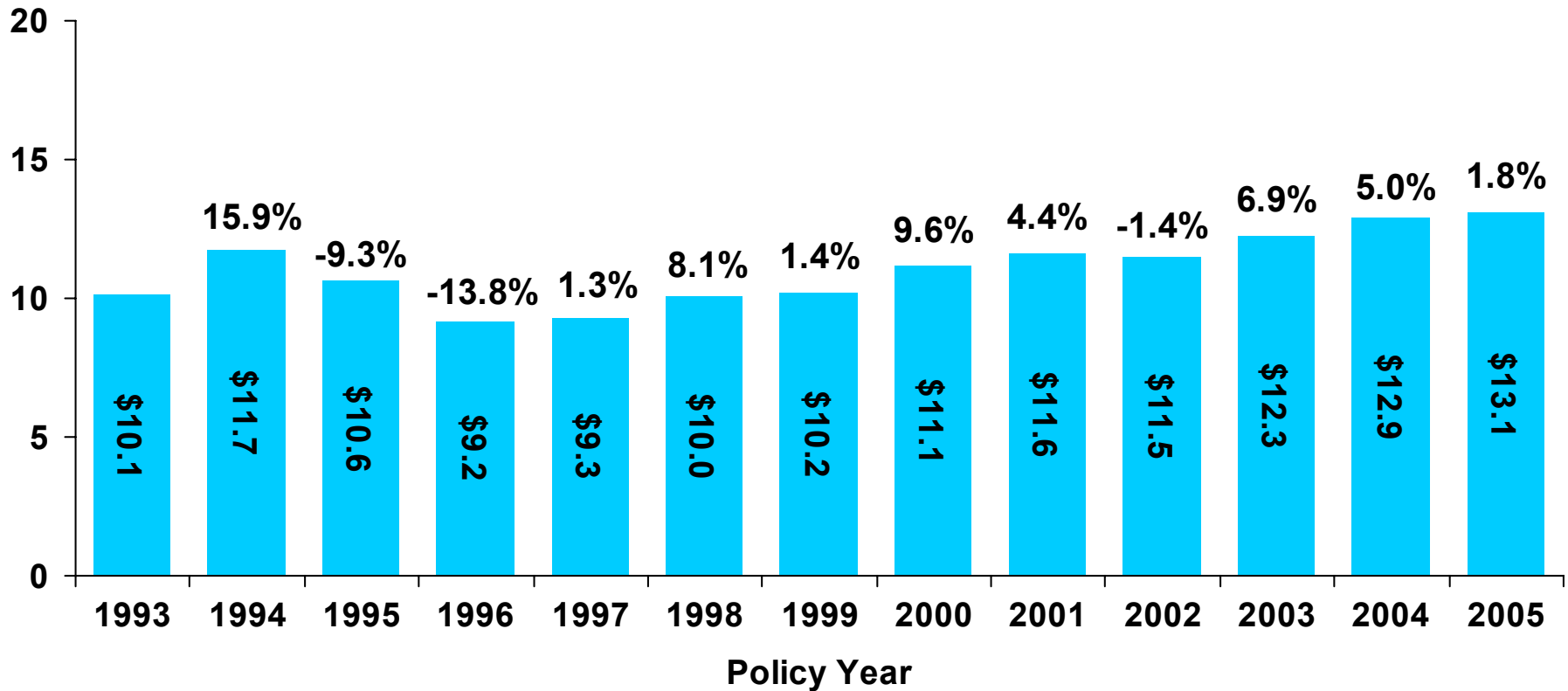
Accident year indemnity severity—NCCI states, NCCI



Rhode Island Workers Compensation Indemnity Claim Costs

Lost-Time Claims

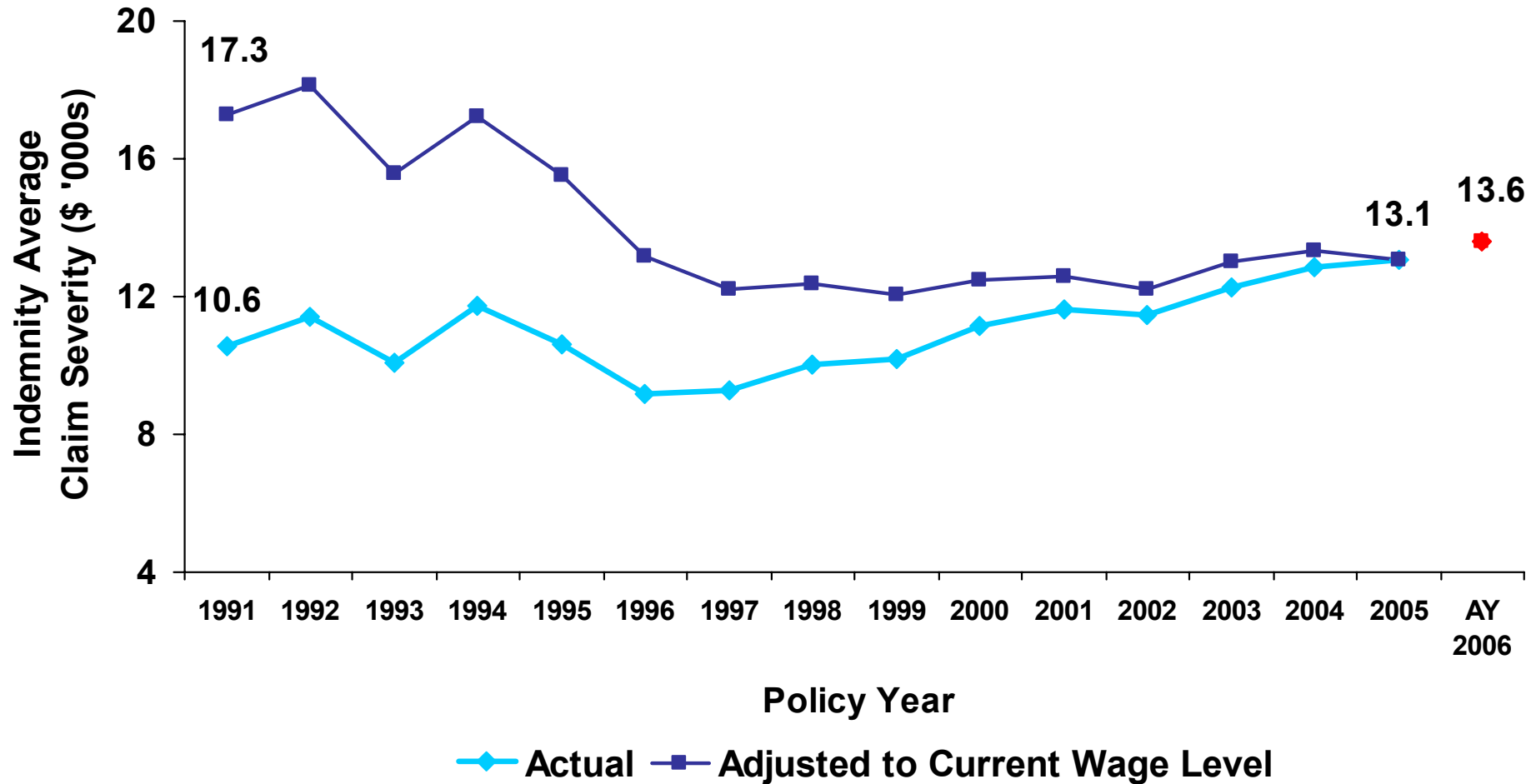
Indemnity
Claim Cost (000s)



Based on data through 12/31/06, on-leveled and developed to ultimate.



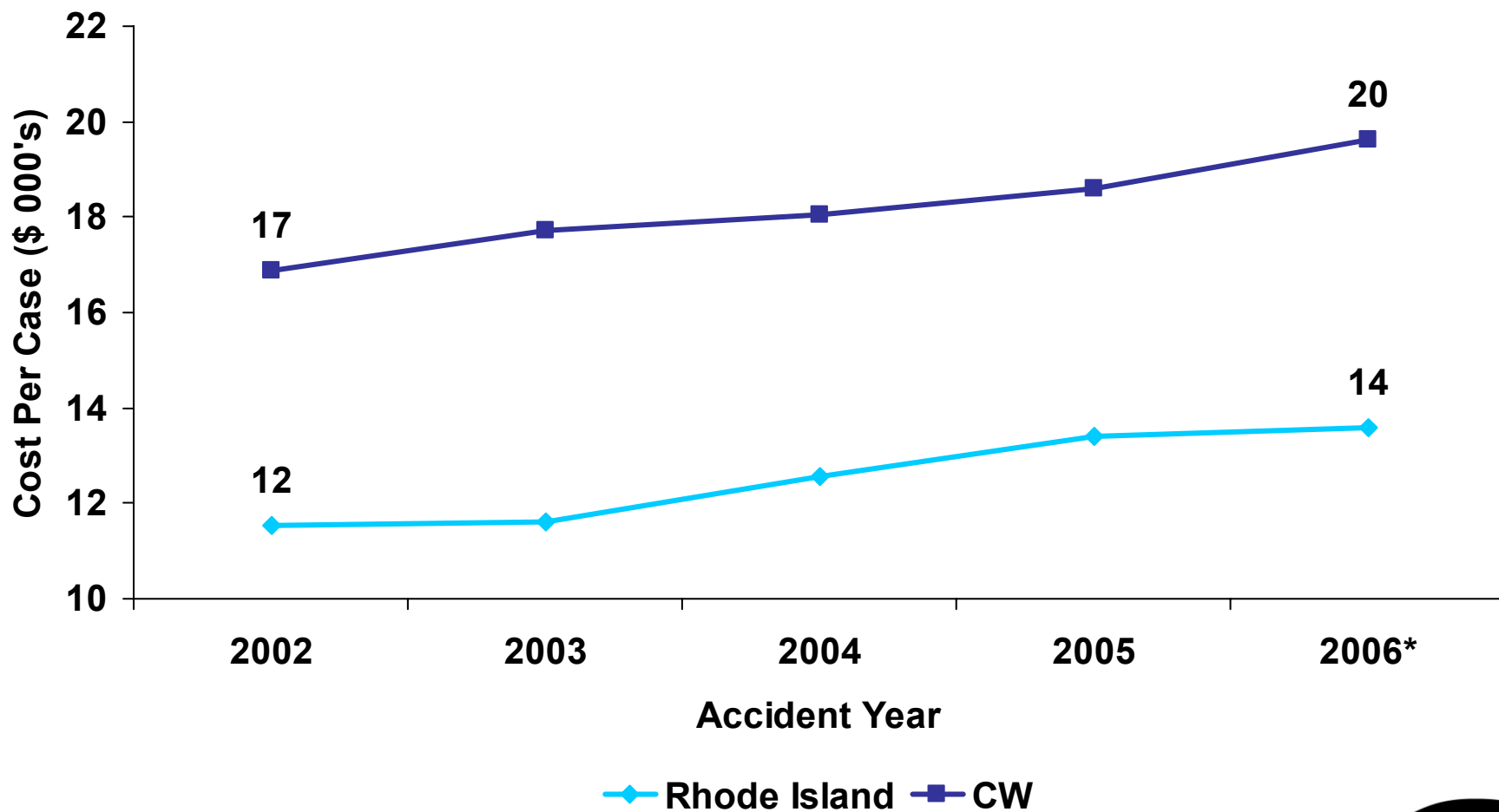
Rhode Island's Average Indemnity Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.



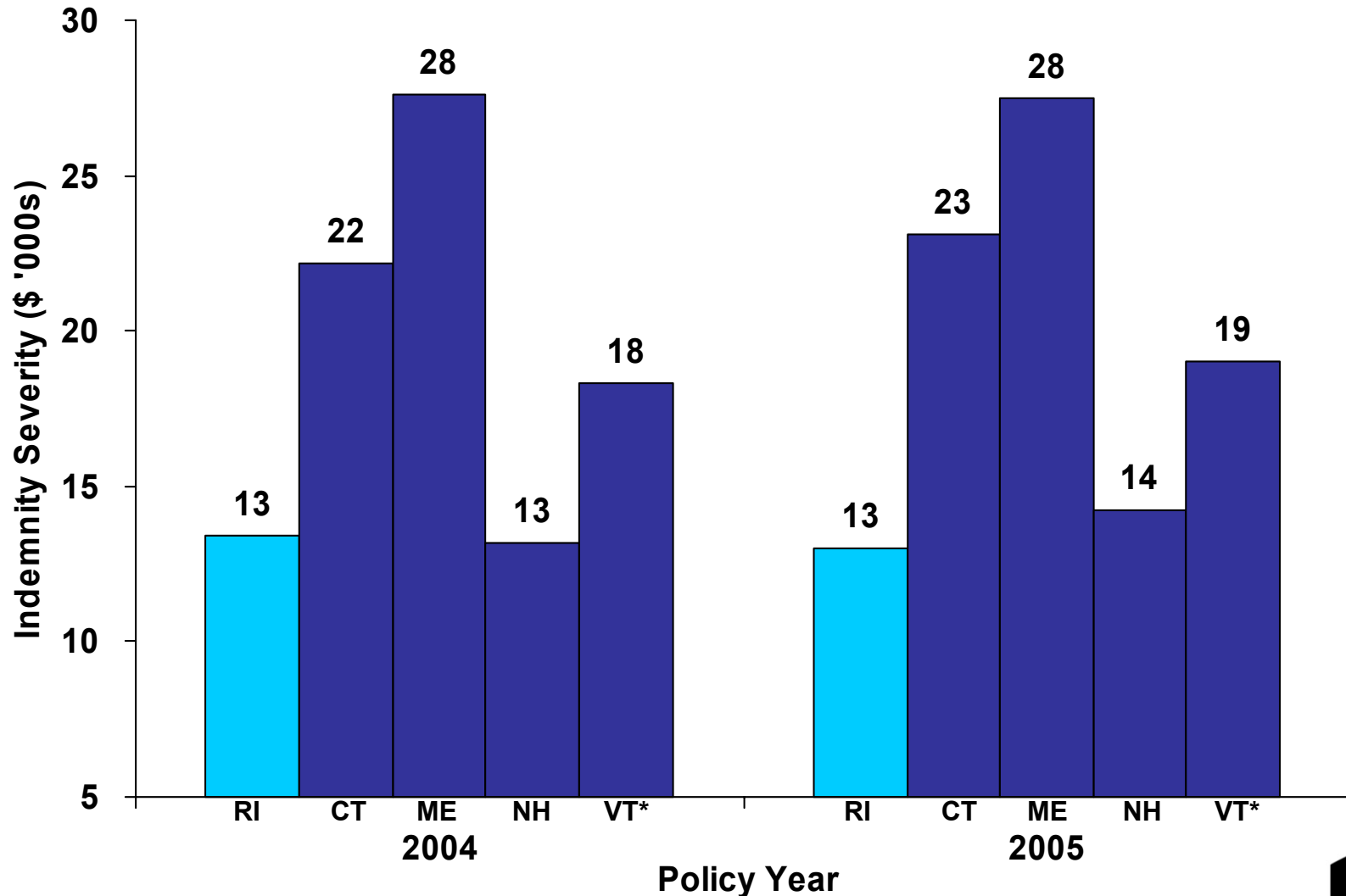
Rhode Island Indemnity Average Cost per Case vs. Countrywide



* Countrywide figure is preliminary
Source: NCCI Financial Call data valued as of 12/31/06



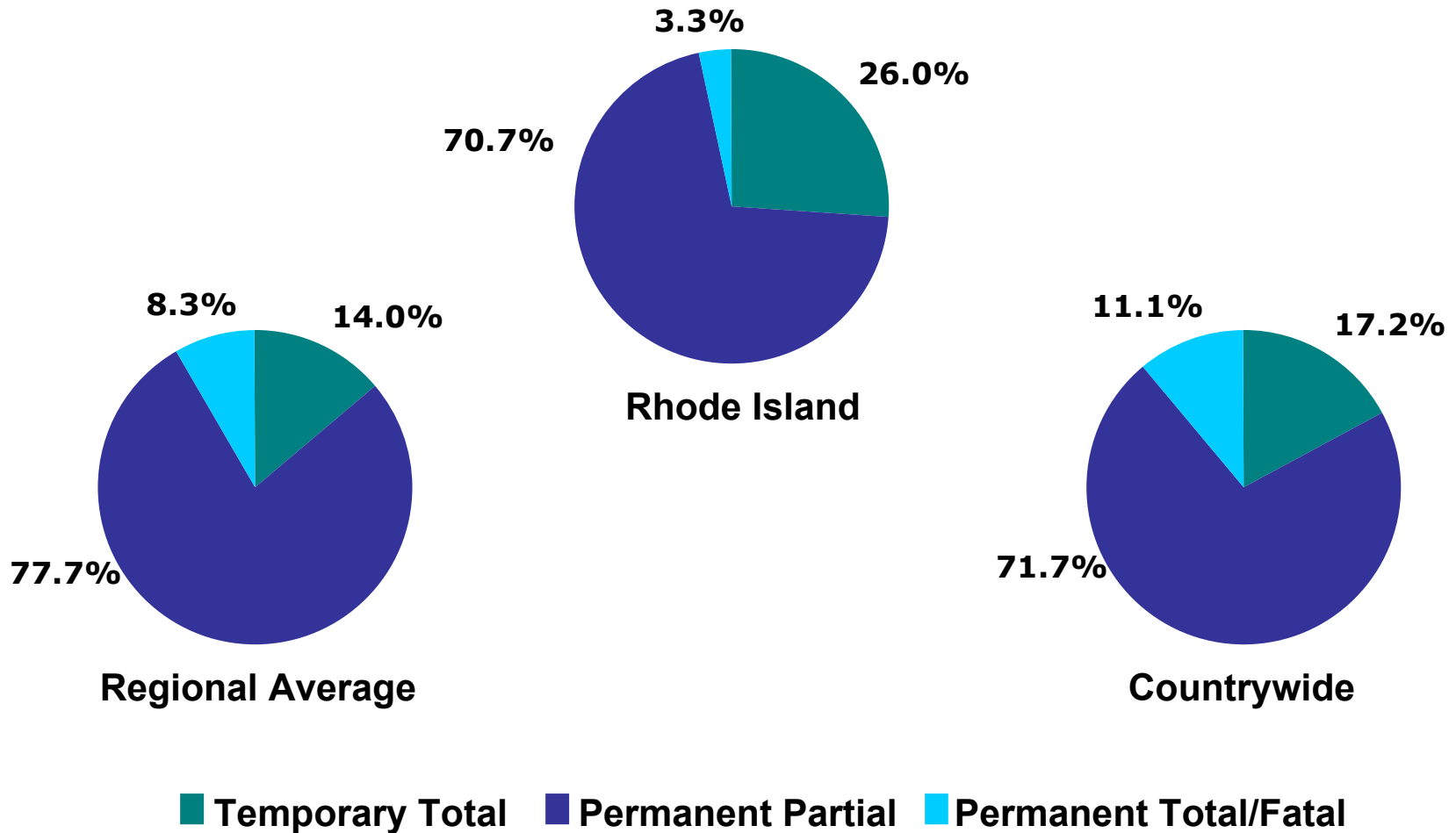
Rhode Island's Indemnity Average Claim Severity



Based on NCCI's financial data for lost-time claims.

* Preliminary

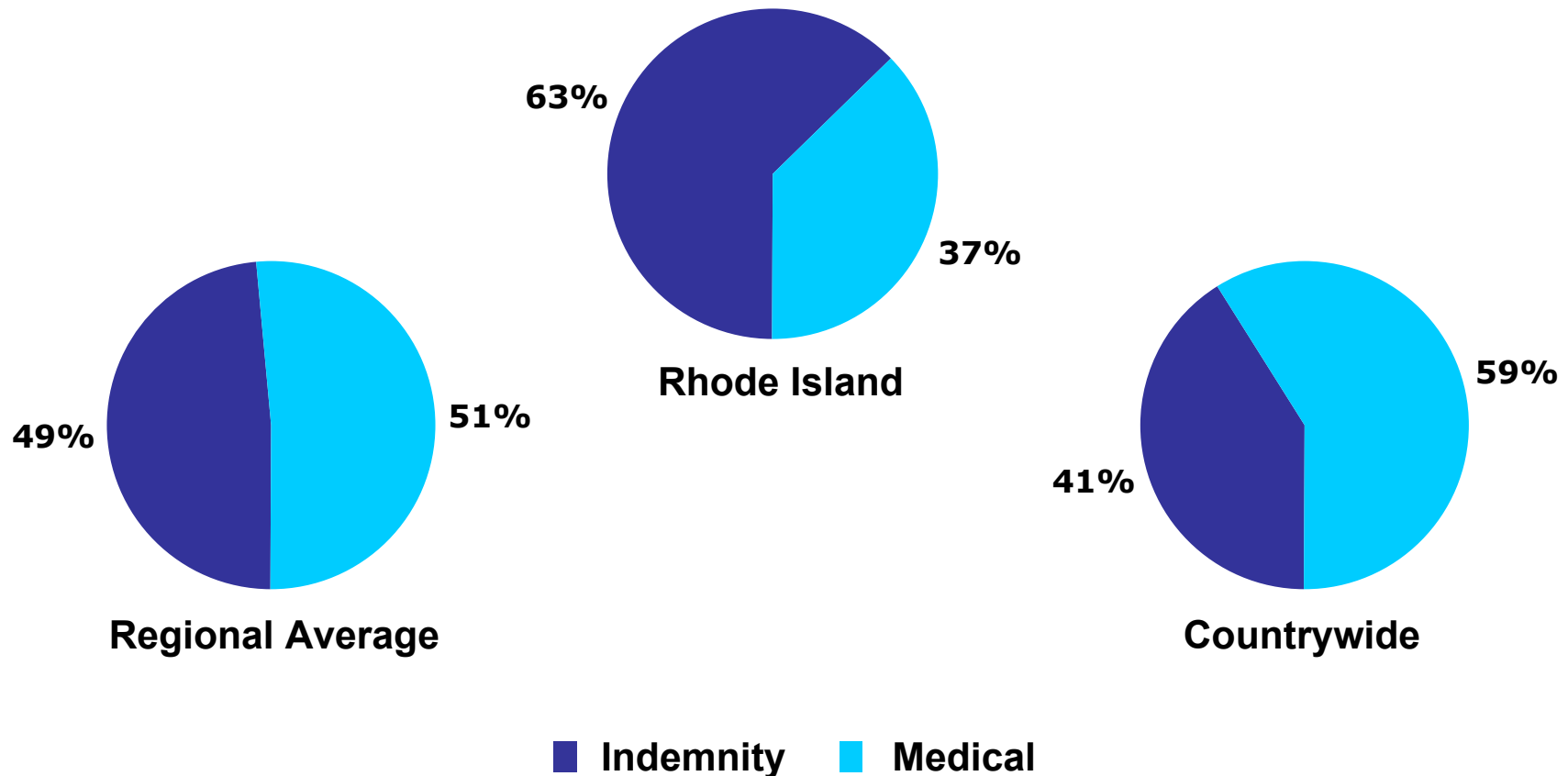
Rhode Island's Indemnity Loss Distribution by Injury Type



Regional states are Connecticut, Maine, New Hampshire, and Vermont.
Based on NCCI's WCSP data.



Indemnity Benefits Constitute the Majority of Total Benefit Costs in Rhode Island



Regional states are Connecticut, Maine, New Hampshire, and Vermont.

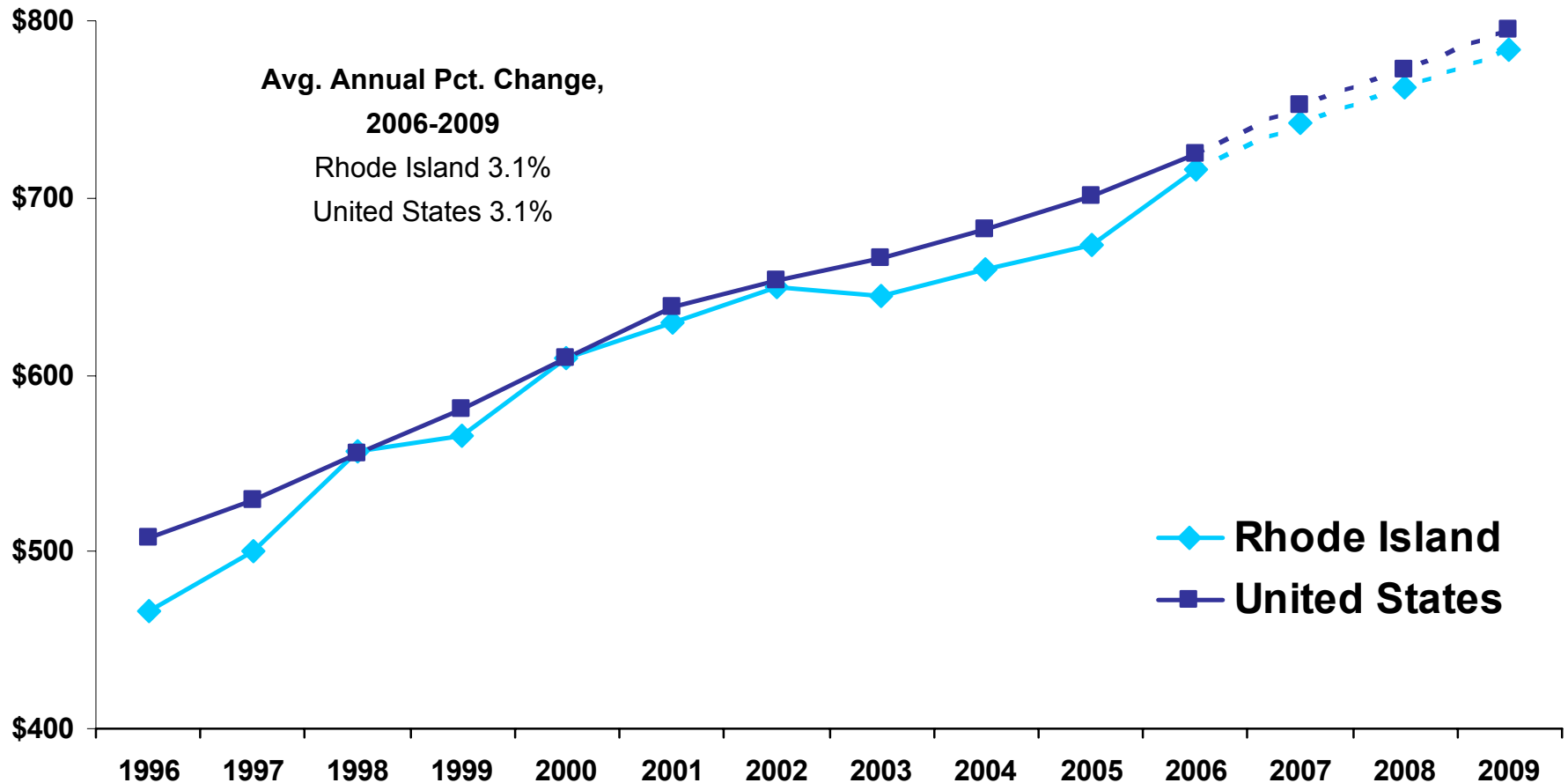


Economic Drivers of Indemnity Severity

- Wages
 - Rhode Island-specific information
- Demographics
 - How indemnity severity varies by age

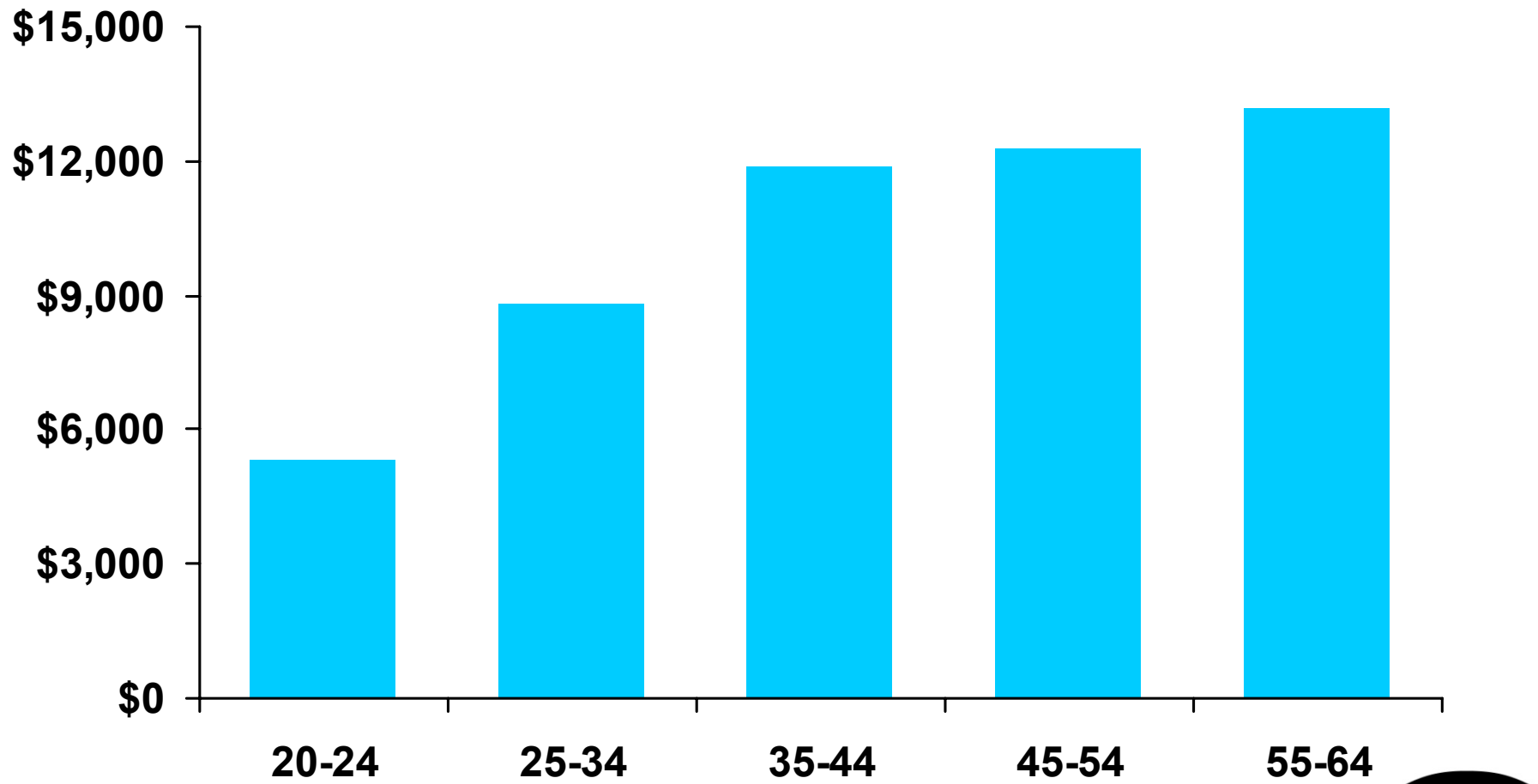


Rhode Island's Average Weekly Wage Compared With That of the U.S.



Indemnity Severity Increases With Age

Average Paid + Case Indemnity Severity Reported at 18 Months by Age for Accident Year 2004, NCCI States

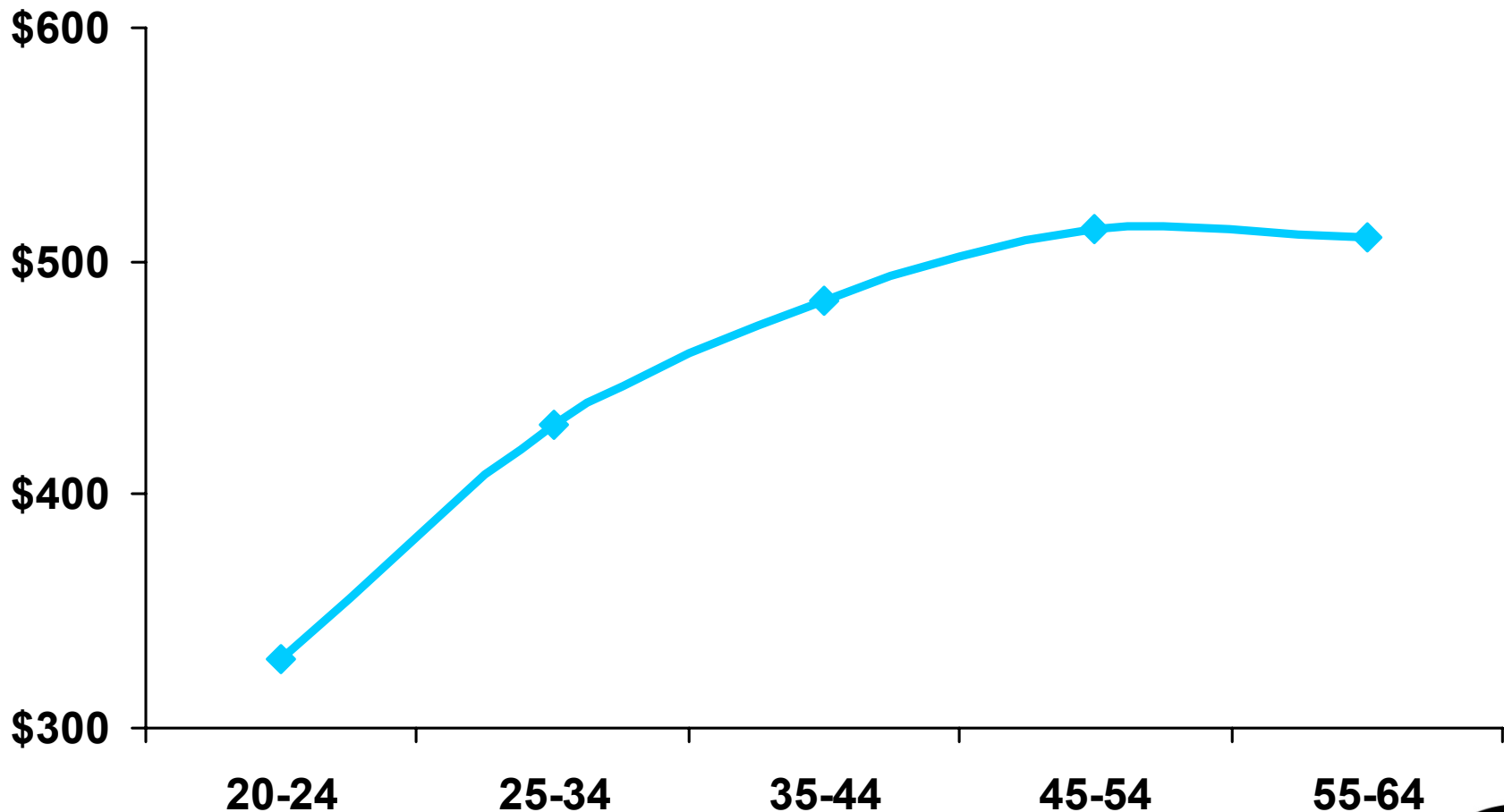


Source: NCCI



Average Weekly Wage Increases With Age

Average Weekly Wage of Injured Workers Closed Claims at 60 Months,
1996-2003, NCCI States

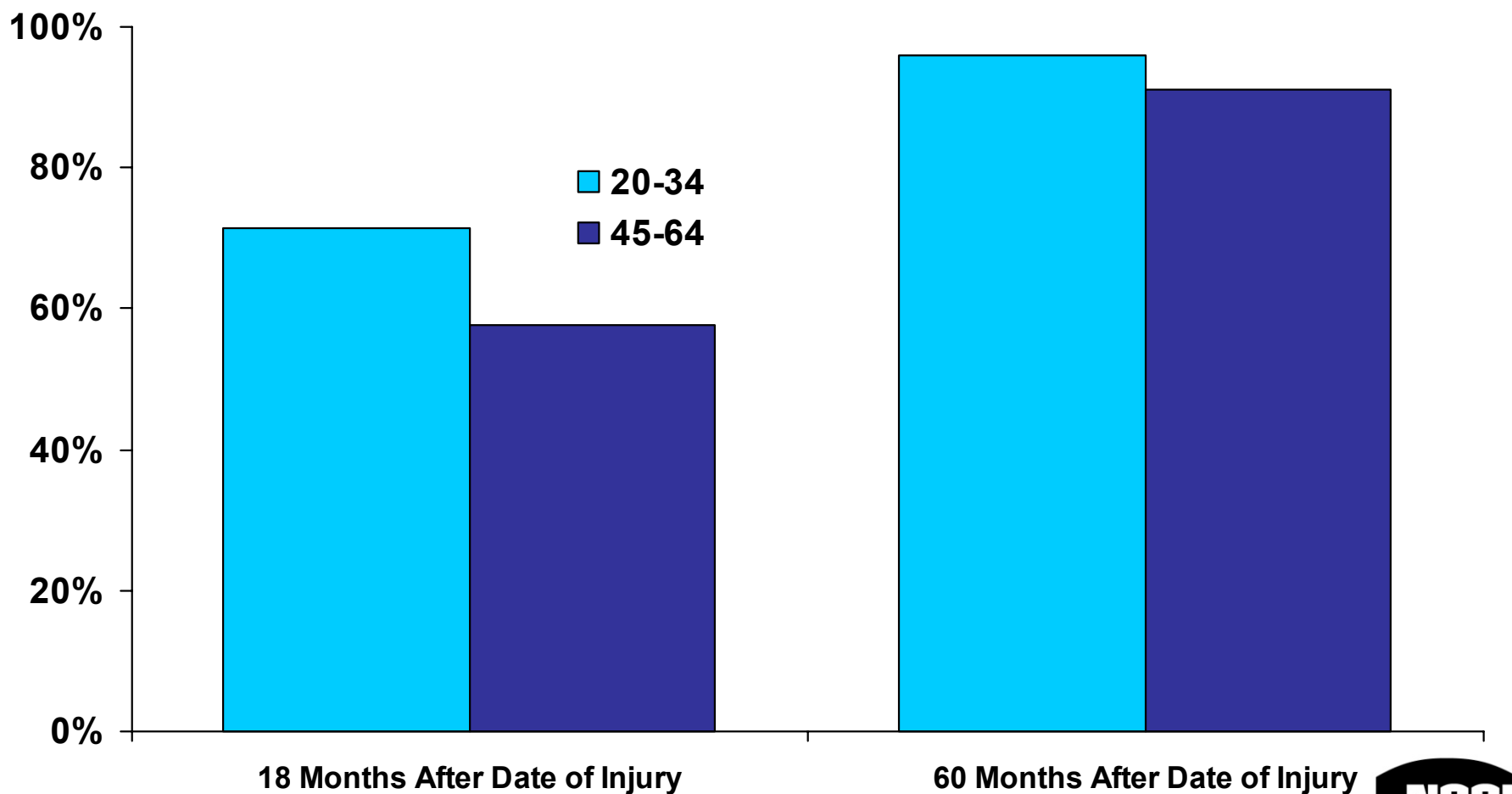


Source: NCCI



Older Workers Have Fewer Claims Closed Than Younger, Both at 18 and 60 Months After Injury

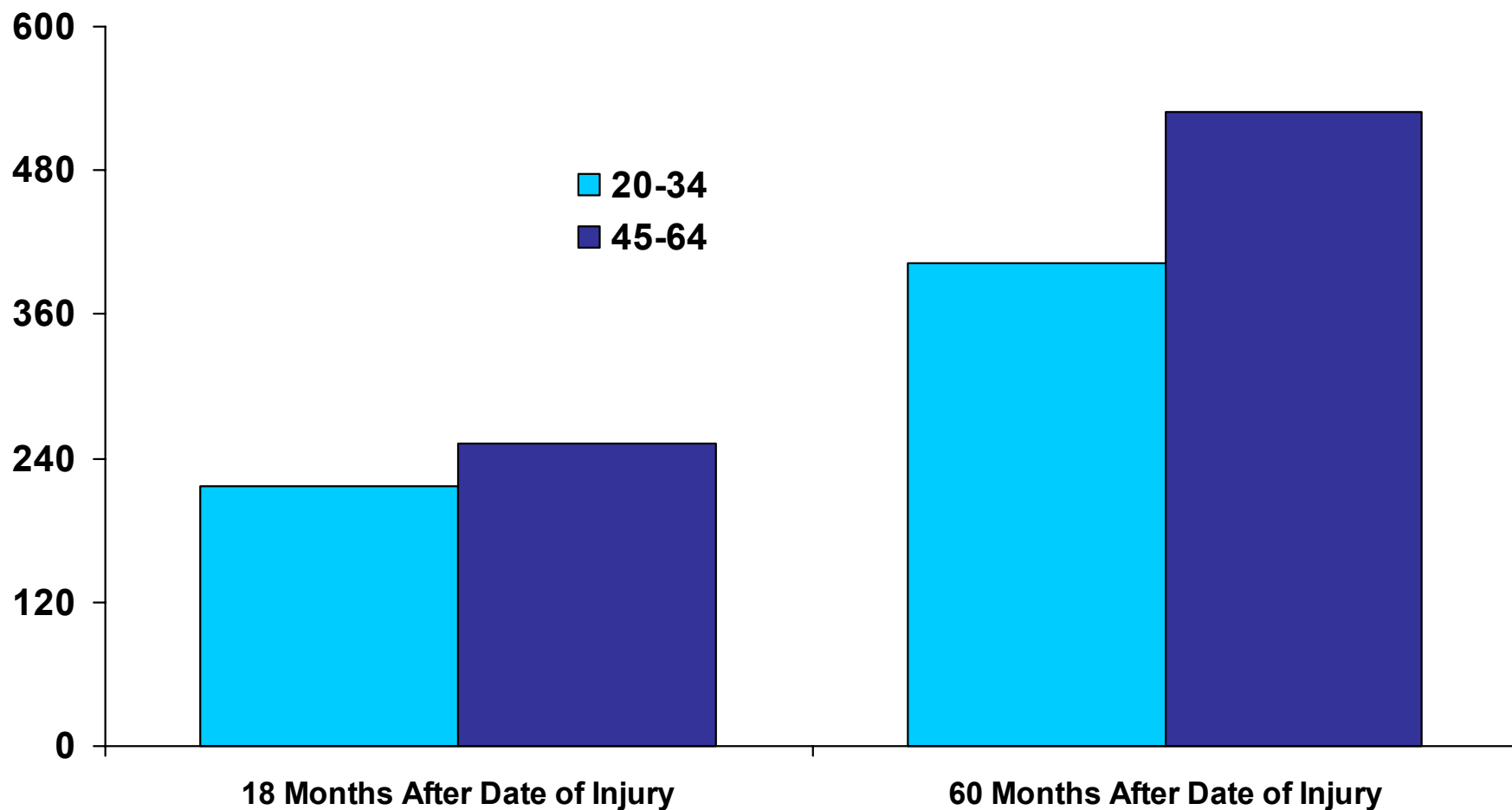
Percent of Claims That Are Closed, 1996-2003, NCCI States



Source: NCCI

Average Duration Is Longer for Older Workers

Average Days from Date of Injury to Closure, Closed Claims
1996-2003, NCCI States



Source: NCCI



Key Takeaways— Drivers of Indemnity Severity

- Projected wage increases in Rhode Island suggest upward pressure on indemnity severity in the coming years
- Indemnity severity tends to increase with age





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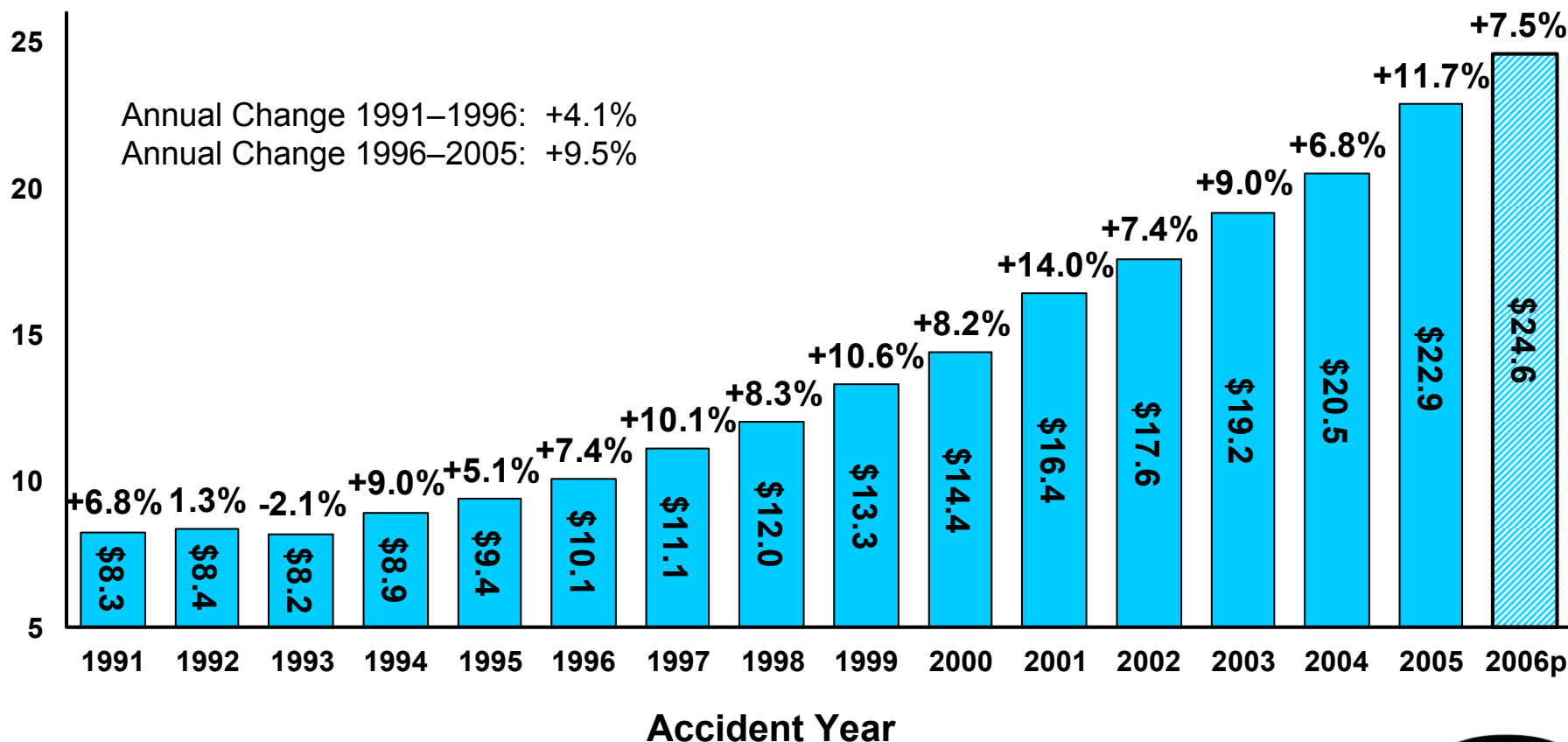
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Medical Severity

Countrywide WC Medical Claim Cost Trends—Growth Continues in 2006

Lost-Time Claims

Medical
Claim Cost (000s)



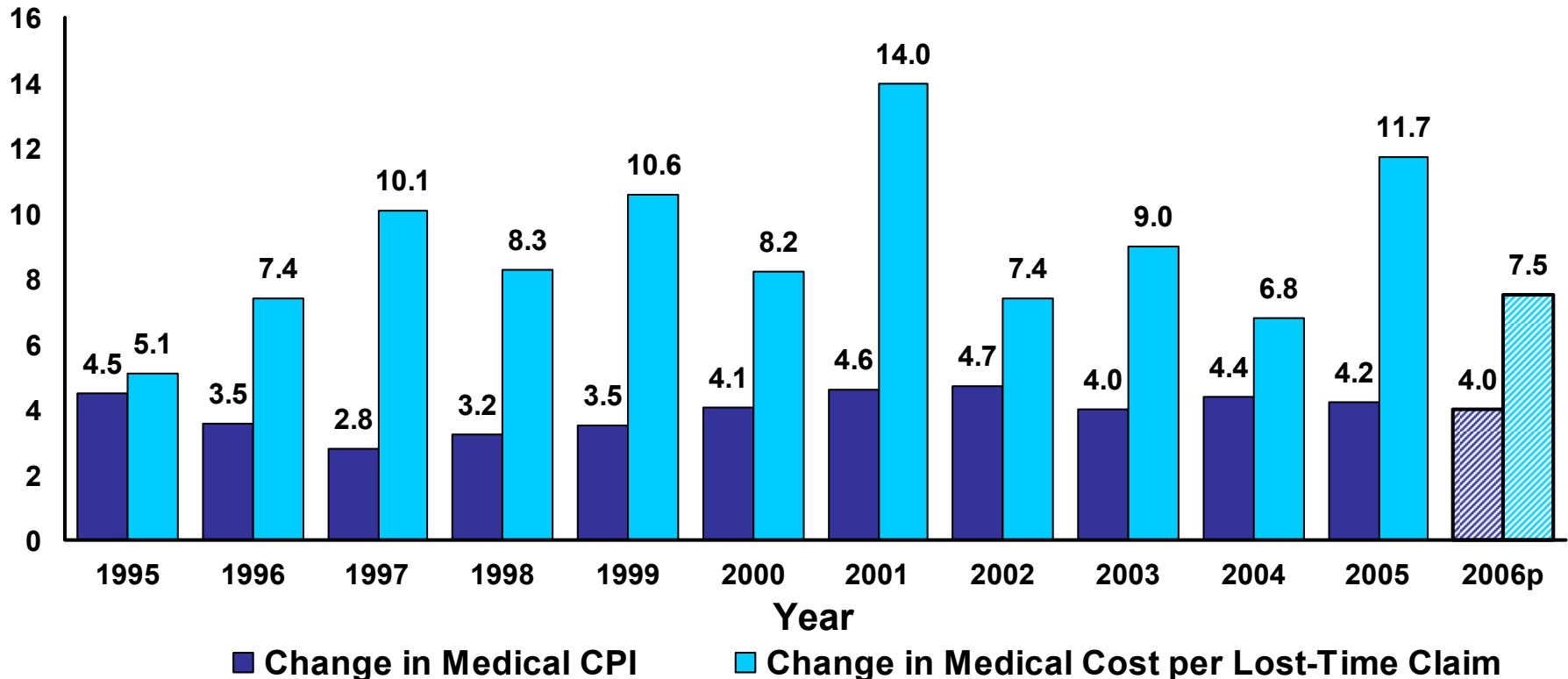
2006p: Preliminary based on data valued as of 12/31/2006
1991–2005: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services.
Excludes the effects of deductible policies.



Countrywide WC Medical Severity Still Growing Much Faster Than the Medical CPI

Lost-Time Claims

Percent Change



Medical severity 2006p: Preliminary based on data valued as of 12/31/2006

Medical severity 1995–2005: Based on data through 12/31/2005, developed to ultimate

Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies.

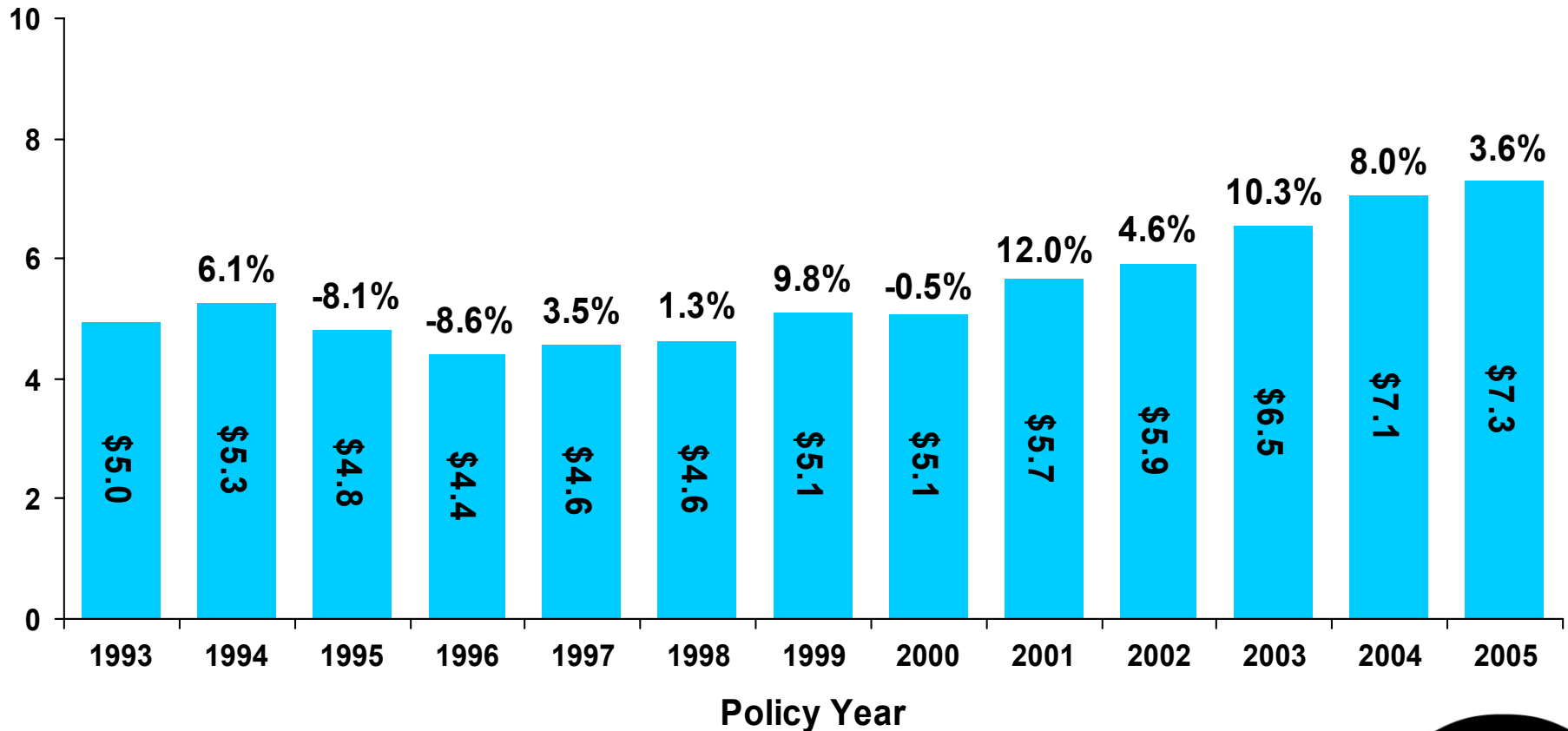
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI



Rhode Island Workers Compensation Medical Claim Cost Trends

Medical
Claim Cost (000s)

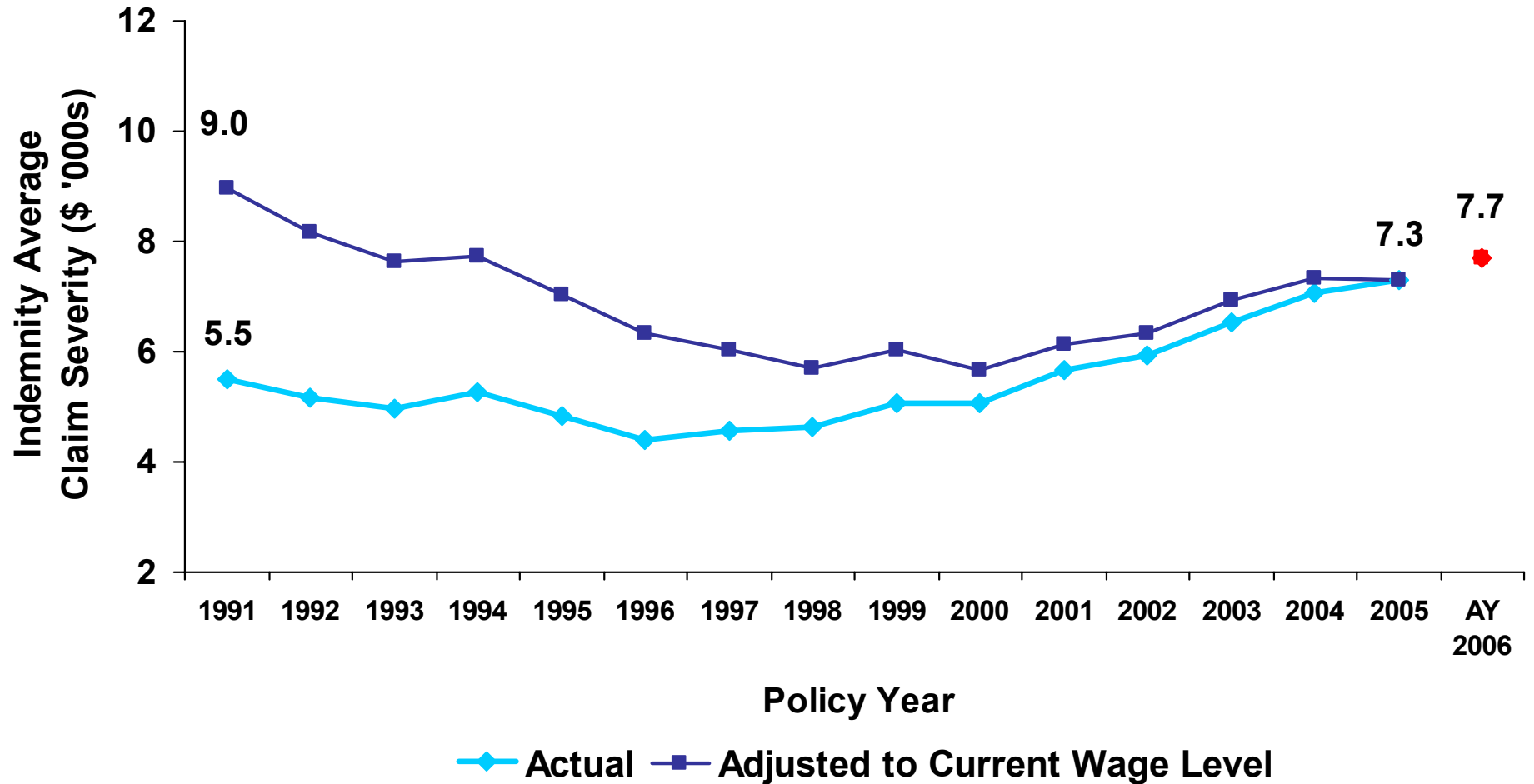
Lost-Time Claims



Based on data through 12/31/06, on-leveled and developed to ultimate



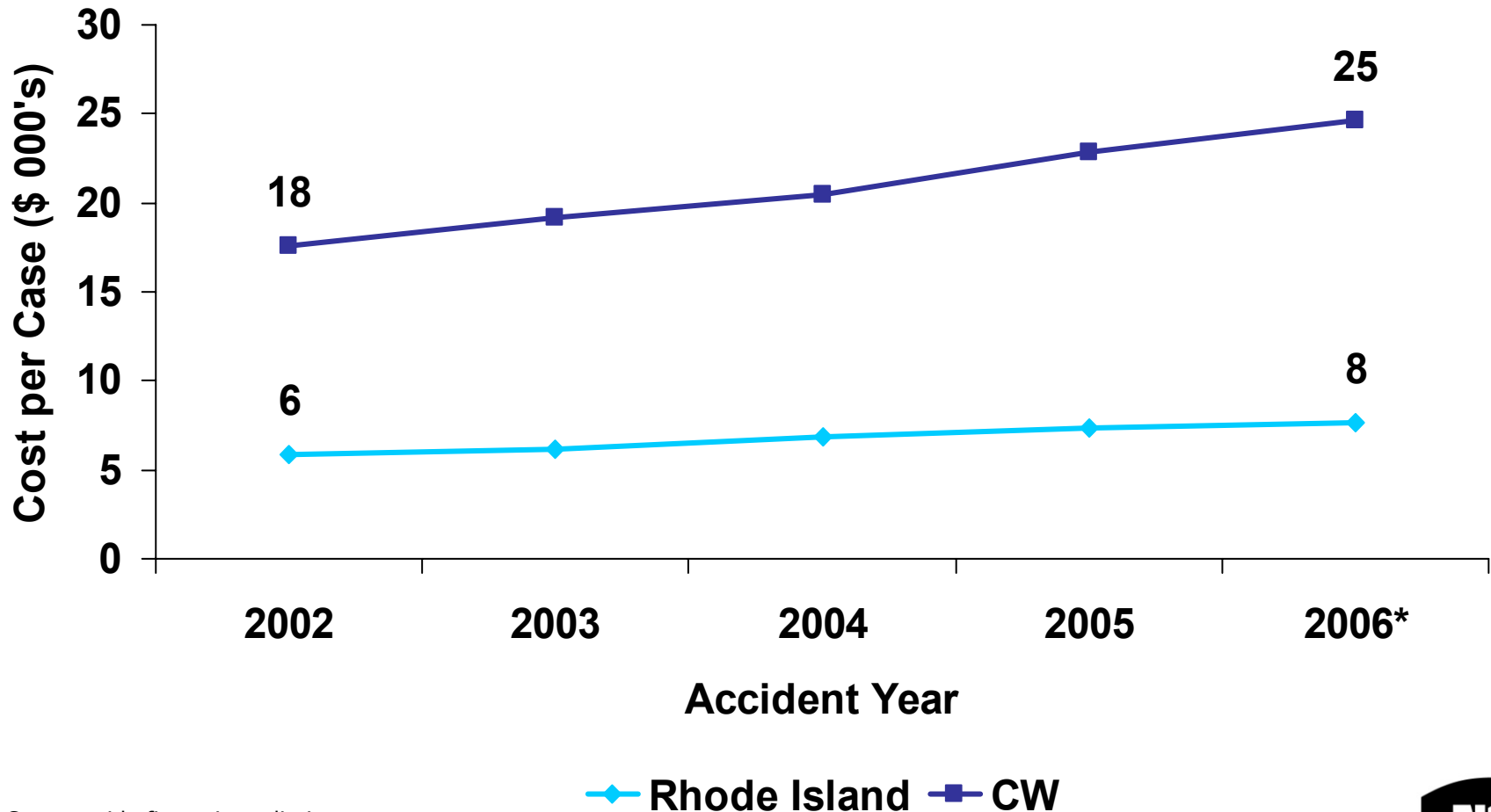
Rhode Island's Average Medical Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.



Rhode Island Medical Average Cost per Case vs. Countrywide

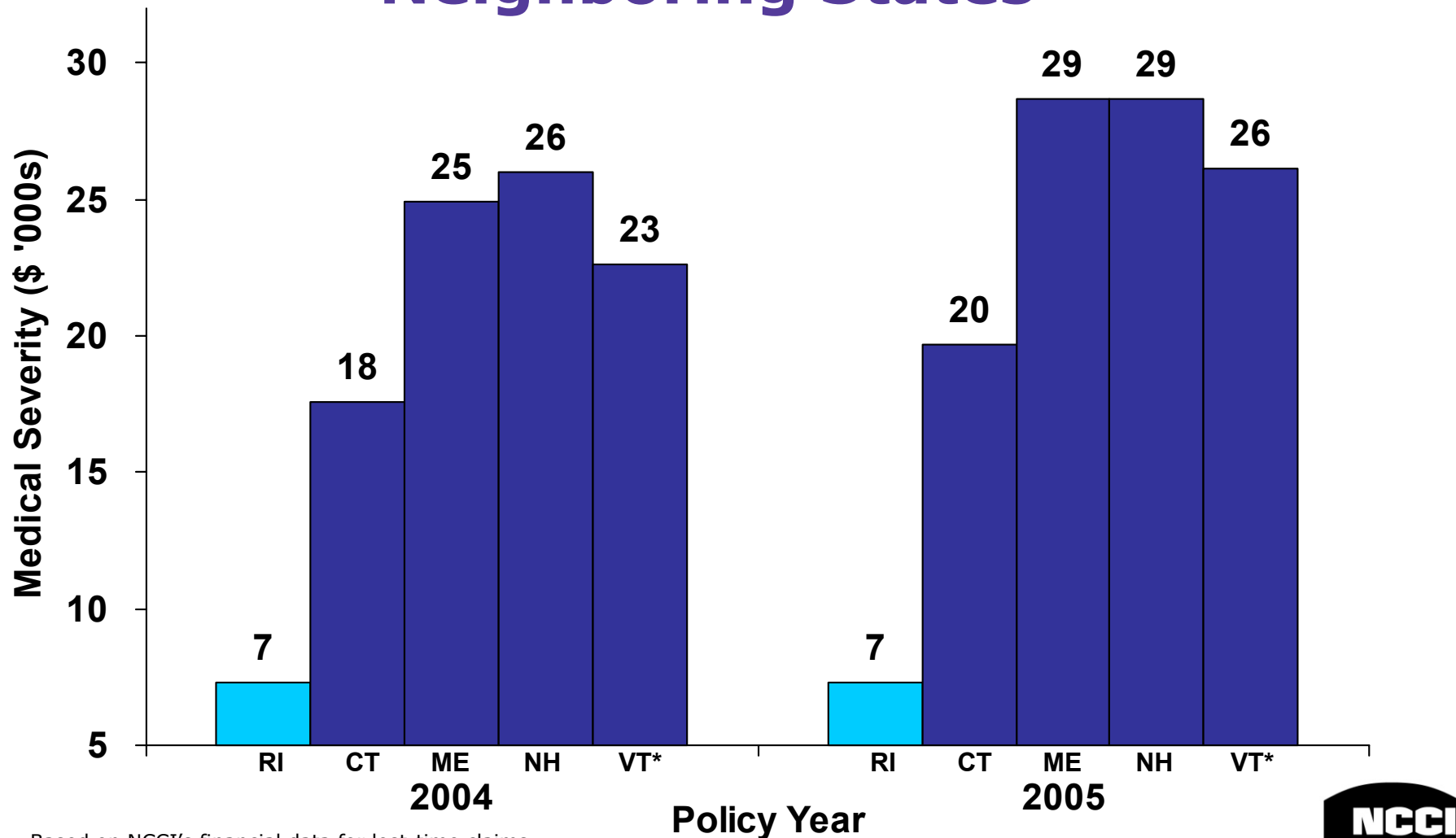


* Countrywide figure is preliminary

Source: NCCI Financial Call data valued as of 12/31/06



Rhode Island's Medical Average Claim Severity Compared With Neighboring States



Based on NCCI's financial data for lost-time claims.

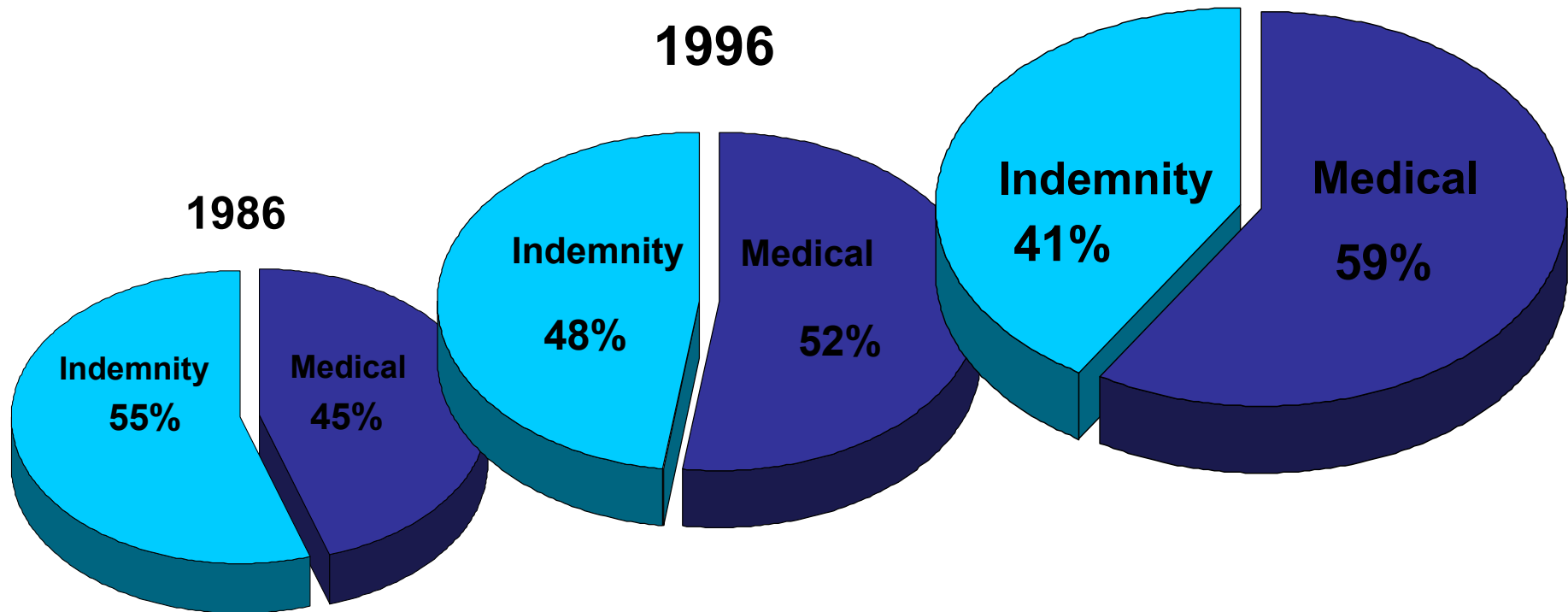
* Preliminary



Workers Compensation Medical Losses Are More Than Half of Total Losses on a Countrywide Basis

All Claims—NCCI States

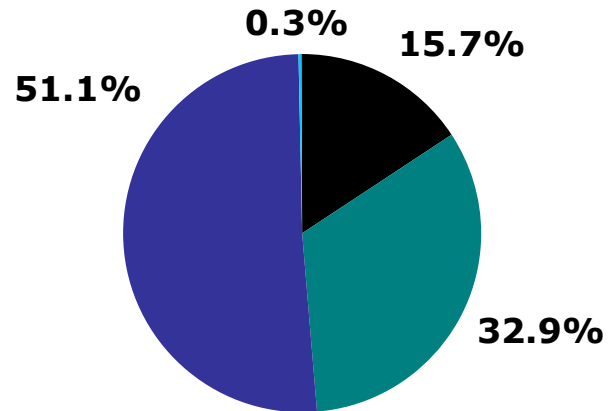
2006p



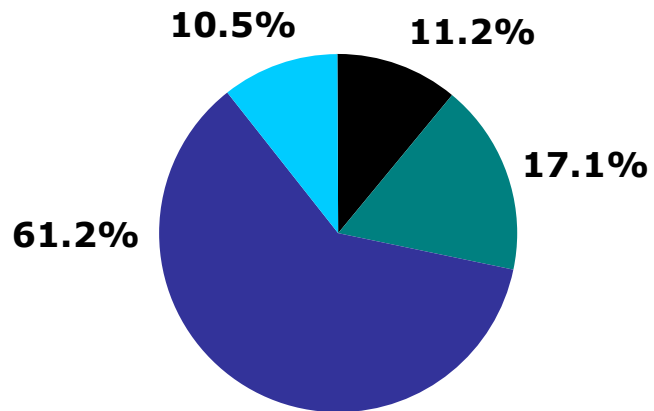
2006p: Preliminary based on data valued as of 12/31/2006
1986, 1996: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services.
Excludes the effects of deductible policies.



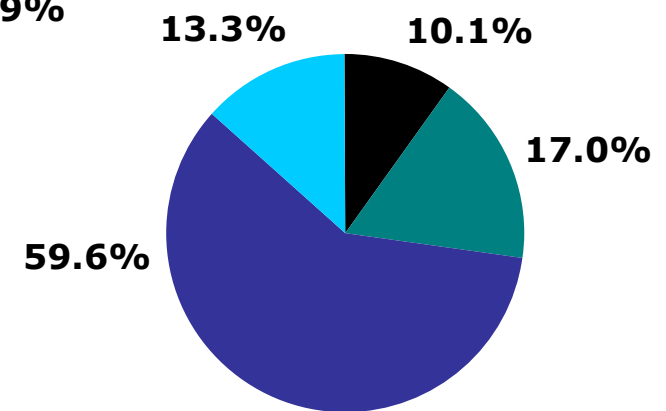
Rhode Island's Medical Loss Distribution by Injury Type



Rhode Island



Regional Average



Countrywide

■ Medical Only ■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

Regional states are Connecticut, Maine, New Hampshire and Vermont.
Based on NCCI's WCSP data.



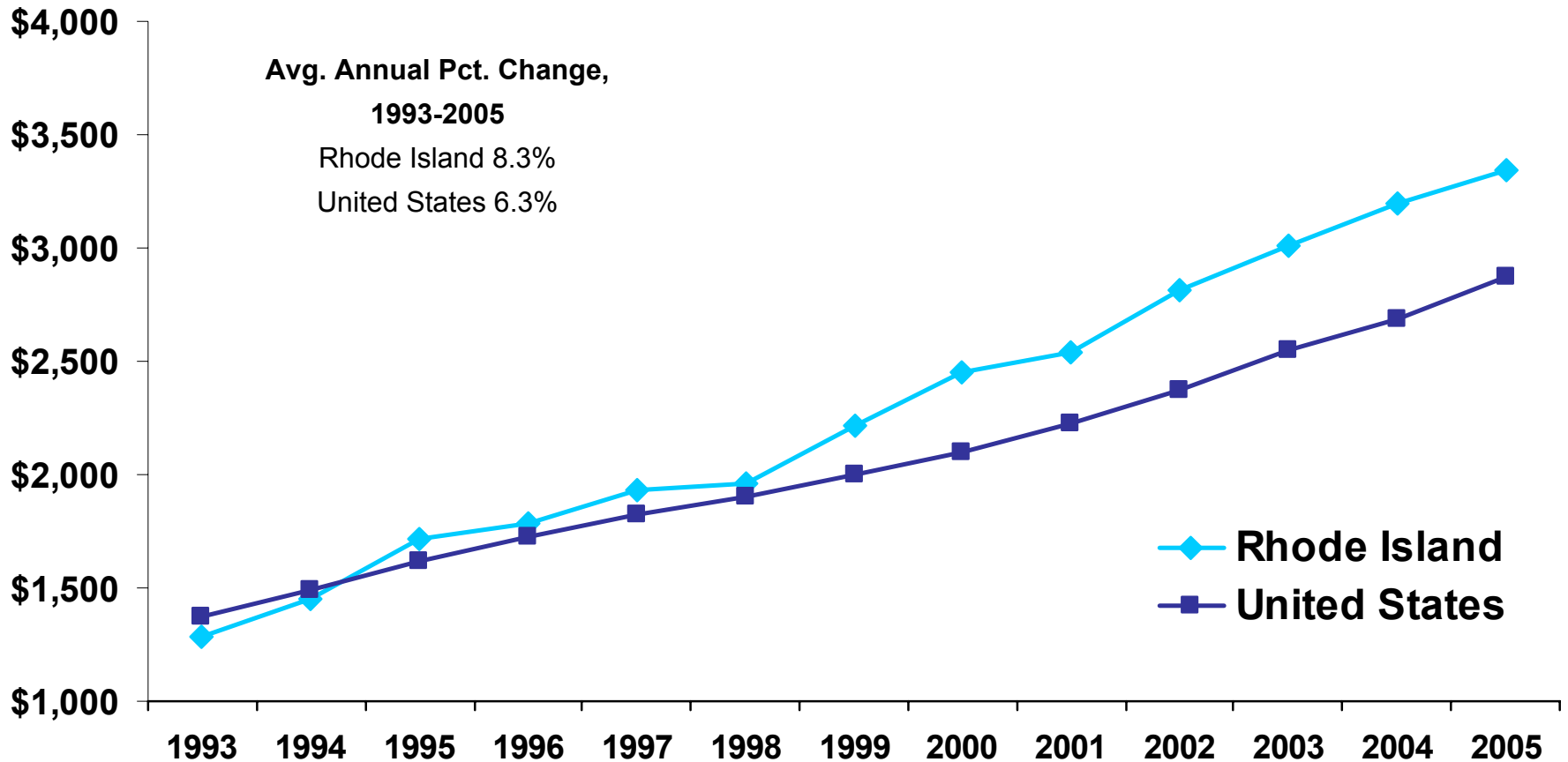
Factors Affecting Medical Severity



Internal Hospital Costs in Rhode Island



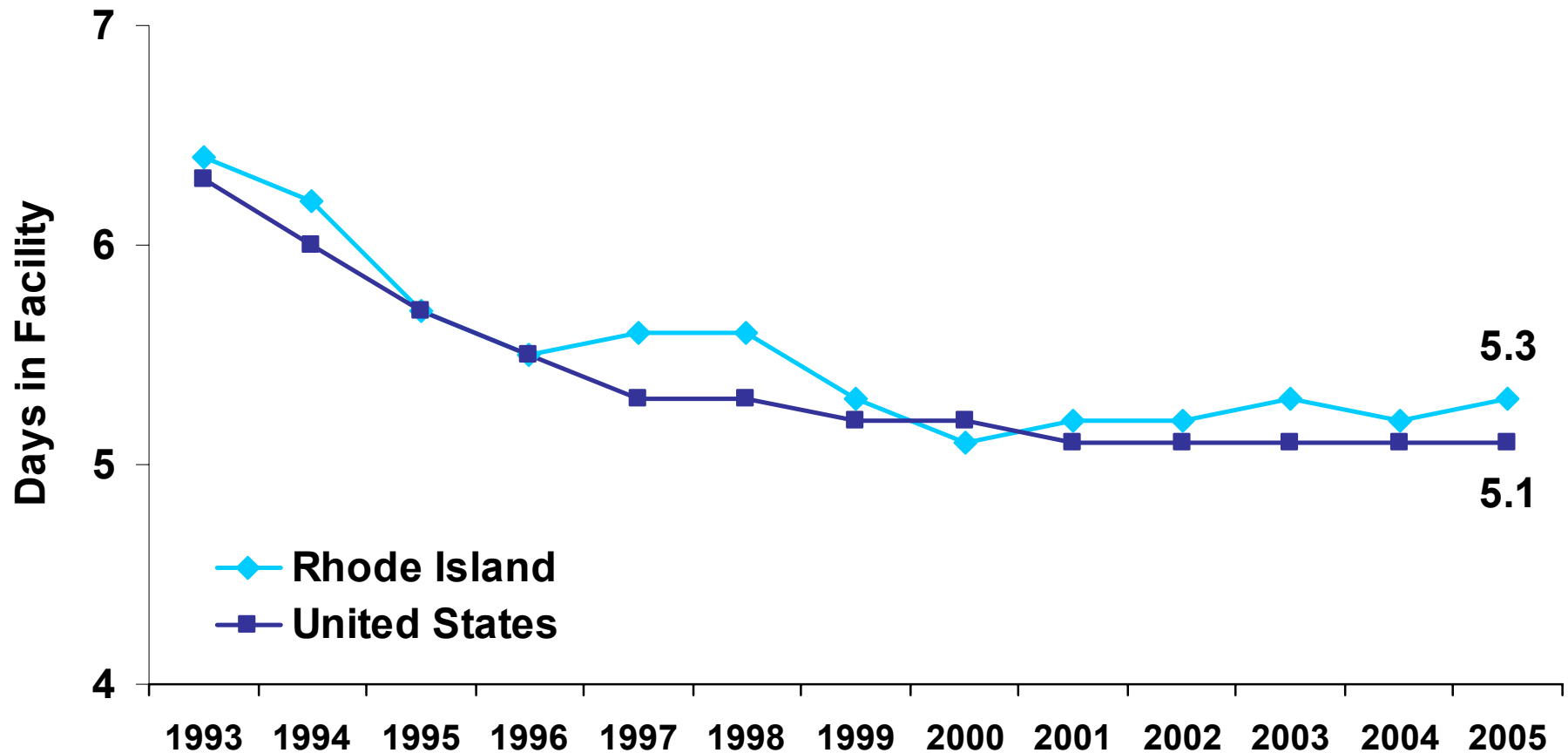
Rhode Island's Avg. Hospital Cost per Day: Above the U.S., Increasing More Rapidly



Source: American Hospital Association



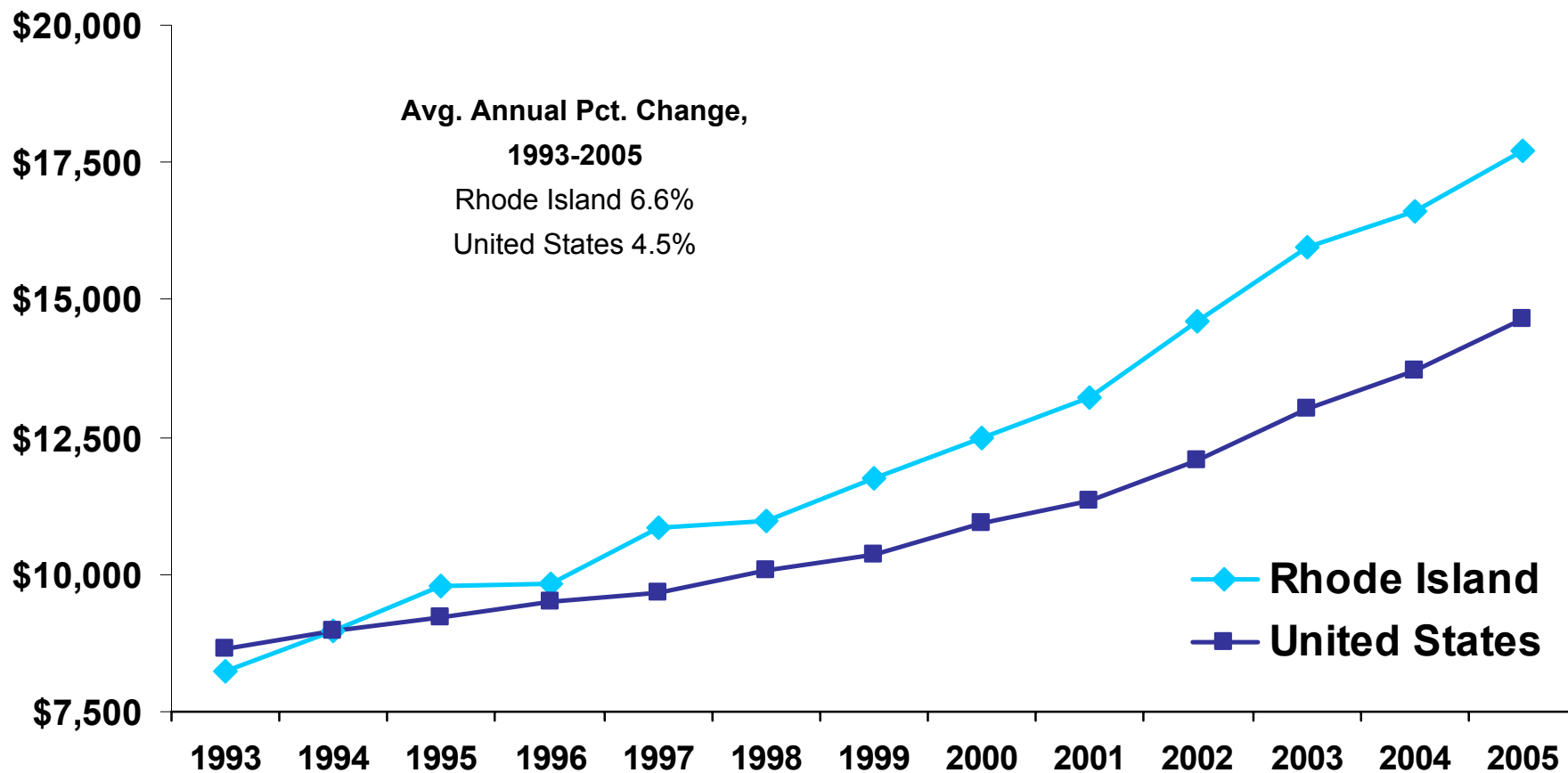
Average Length of Stay in Rhode Island's Hospitals: In Line With That of the U.S.



Source: American Hospital Association



Rhode Island's Avg. Hospital Cost per Stay: Higher Than the U.S., Rising More Rapidly



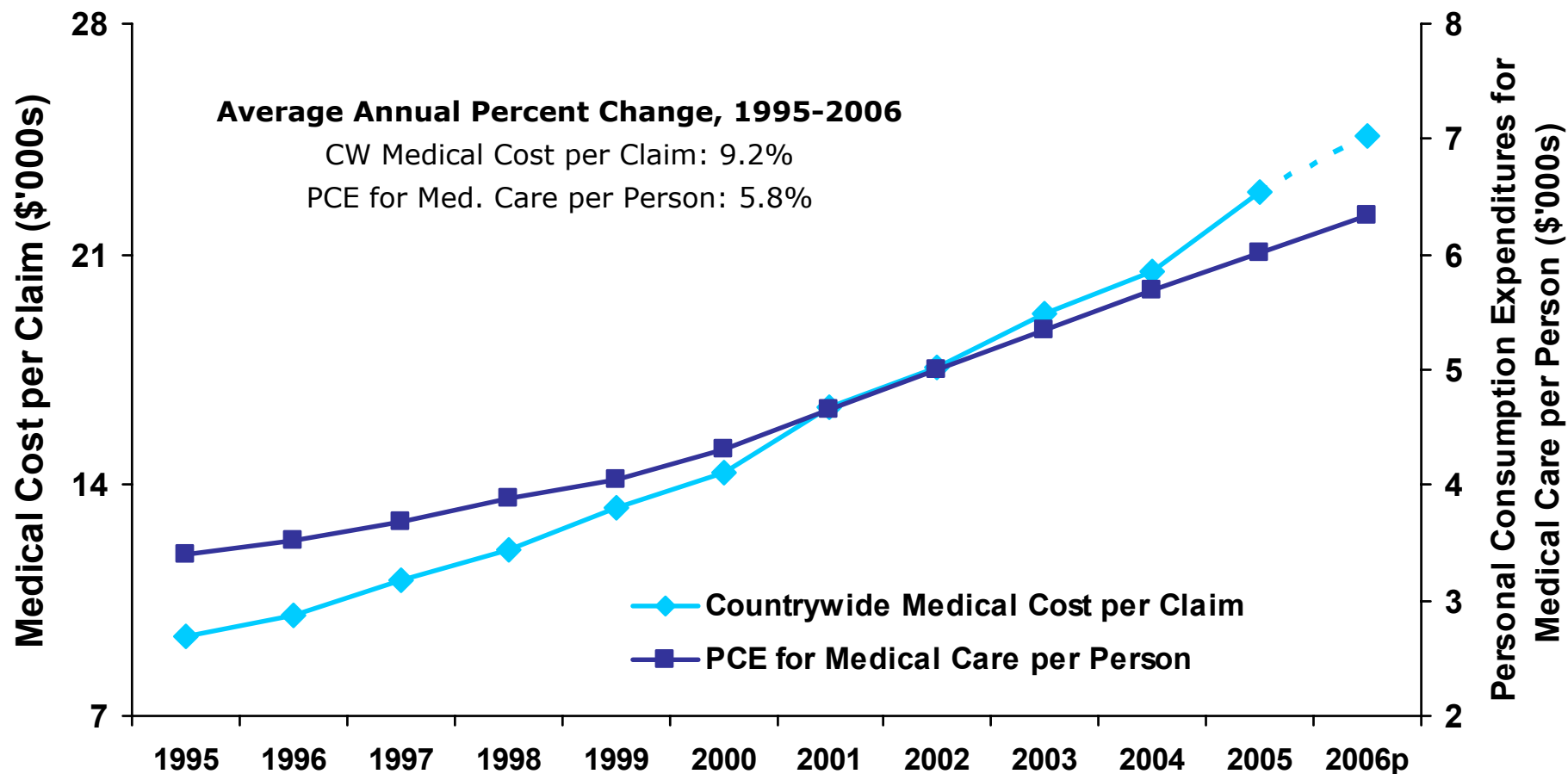
Source: American Hospital Association



Medical Care Spending, Prices, and Utilization



Countrywide Medical Cost per Claim Is Increasing Faster Than Medical Care Spending per Person



2006p: Medical Cost per Claim is preliminary, based on data valued as of 12/31/2006

1995-2005: Based on data through 12/31/2005, developed to ultimate

Based on the states where NCCI provides ratemaking services.

Medical Cost per Claim Data reported on an Accident Year basis.

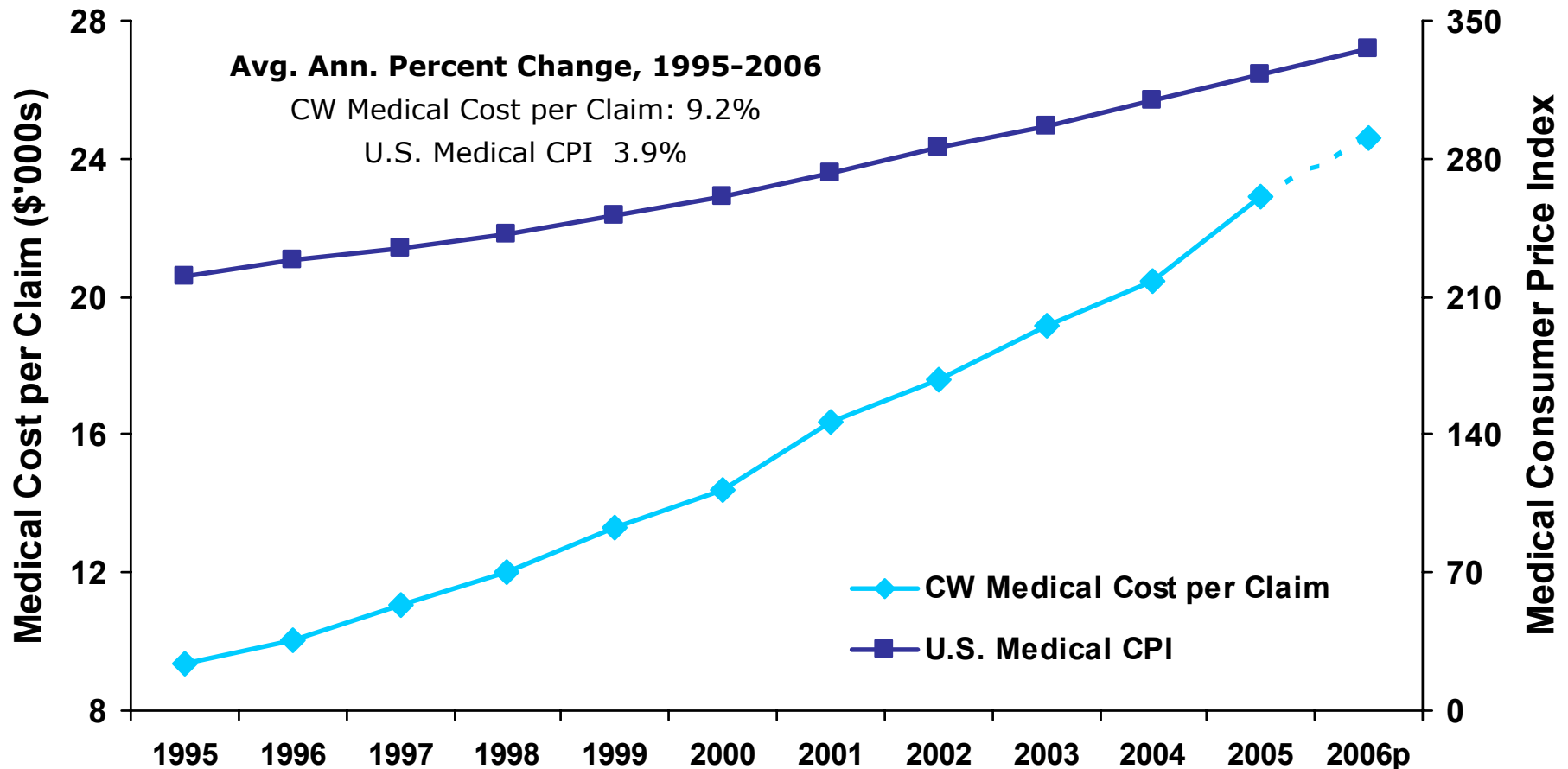
Excludes the effects of deductible policies.

Source: NCCI, U.S. Bureau of Economic Analysis



Countrywide Medical Cost per Claim Is Outpacing the Medical Care CPI

Medical Cost per Claim vs. Medical CPI (1982-84=100)



2006p: Medical Cost per Claim is preliminary, based on data valued as of 12/31/2006

1995-2005: Based on data through 12/31/2005, developed to ultimate

Based on the states where NCCI provides ratemaking services.

Medical Cost per Claim Data reported on an Accident Year basis.

Excludes the effects of deductible policies

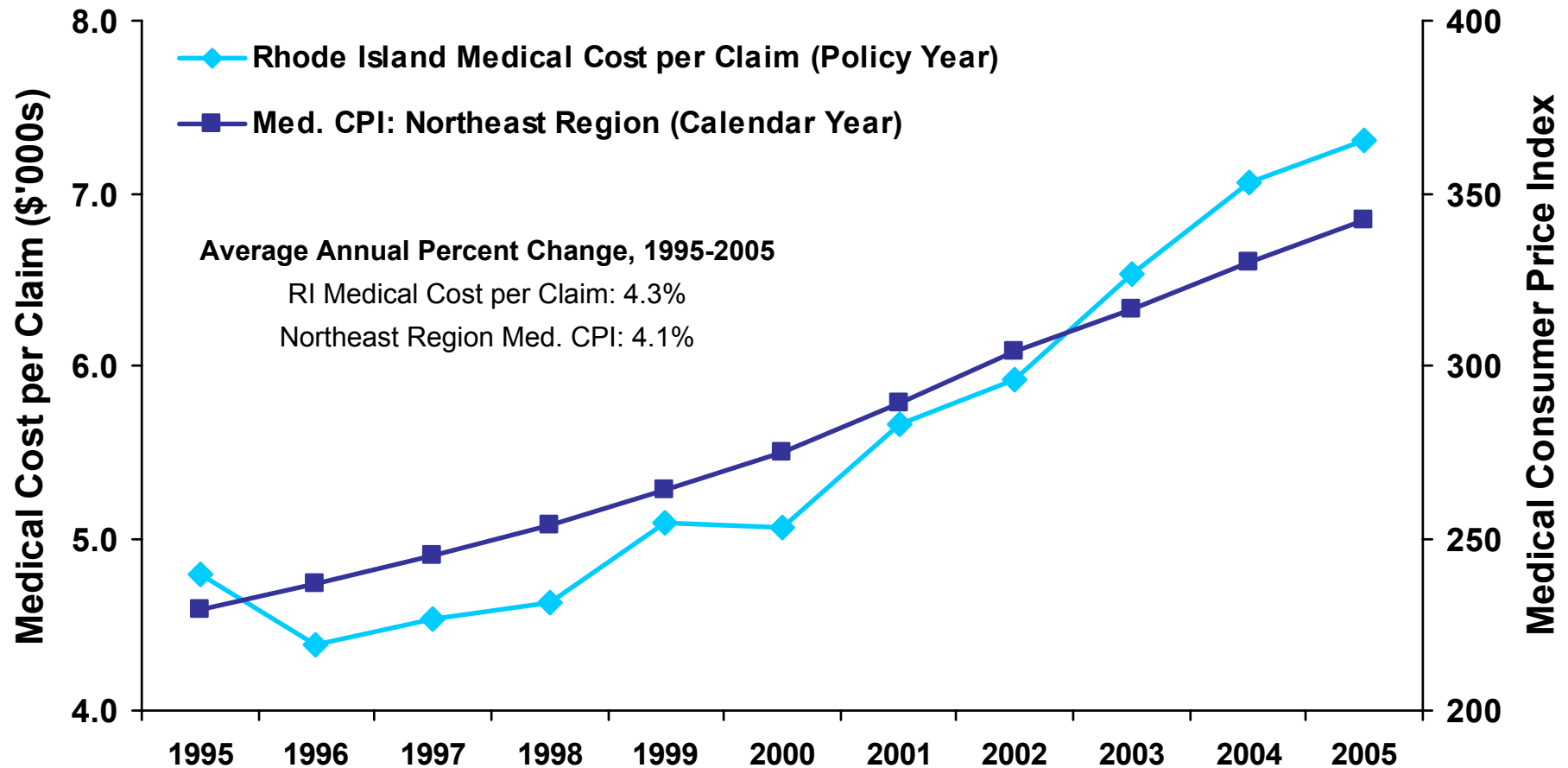
Source: NCCI, U.S. Bureau of Labor Statistics, Moody's Economy.com 70

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Medical Cost per Claim in Rhode Island Is Increasing in Line With the Medical Care CPI

Medical Cost per Claim vs. Regional Medical CPI (1982-1984=100)

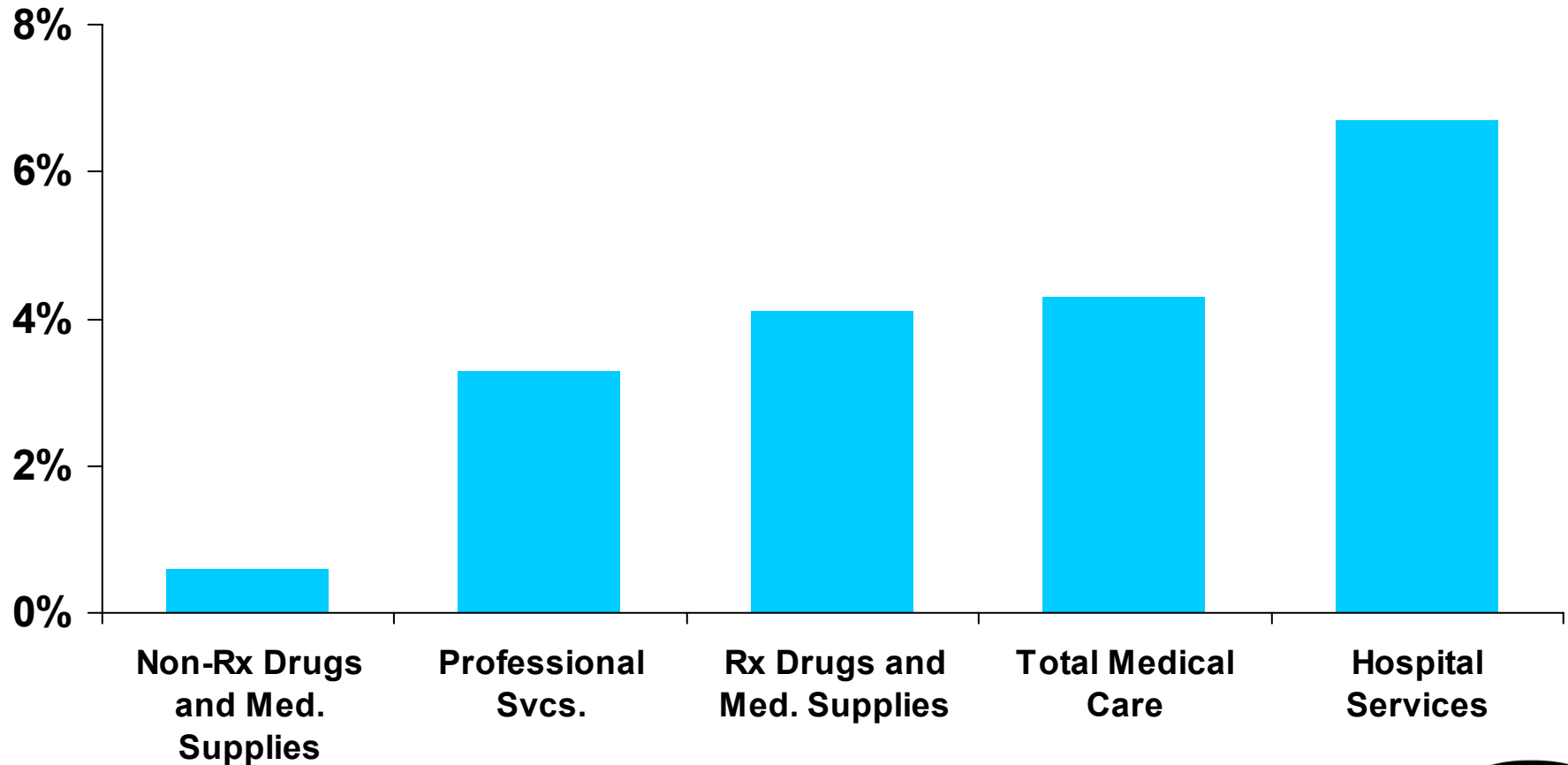


Medical Severity is represented above as ultimate medical losses without adjustments for either wage or benefit changes.
Source: U.S. Bureau of Labor Statistics, NCCI



Medical Care Price Increases Are Highest for Hospital Services

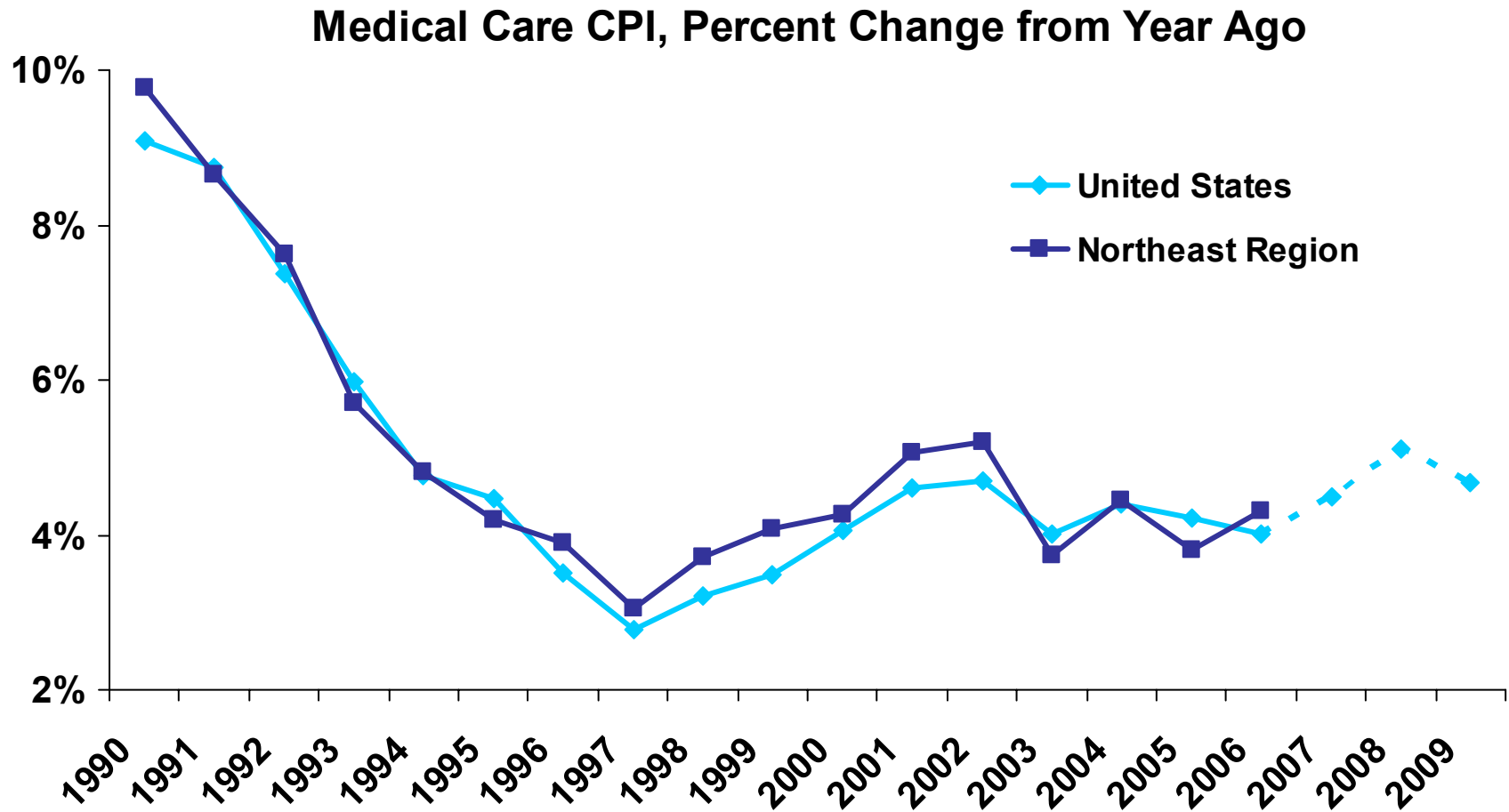
Average Annual Pct. Change in Components
of the U.S. Medical Care CPI, 2000-2006



Source: U.S. Bureau of Labor Statistics

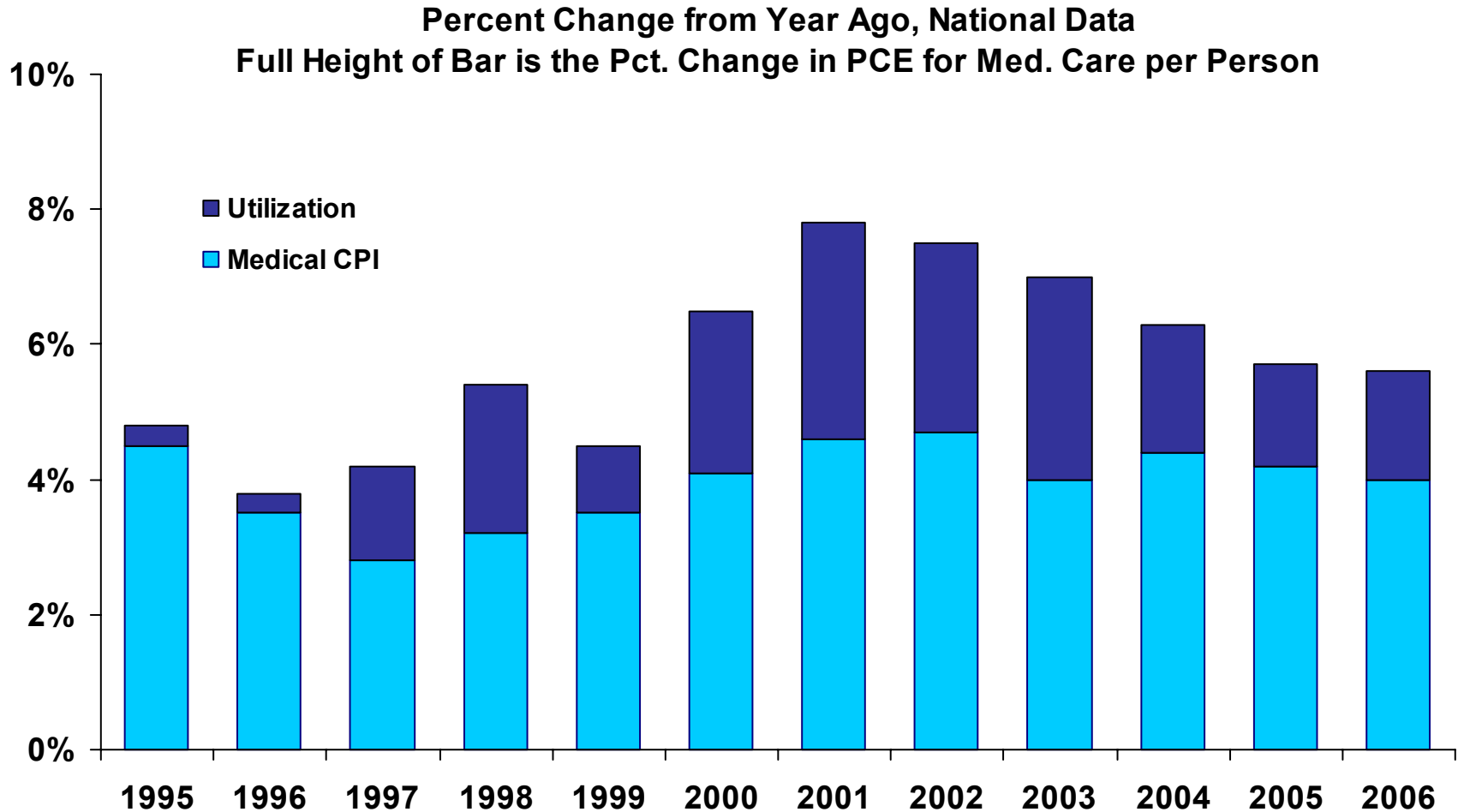


Further Increases in Medical Care Inflation Are Expected Through 2009



Source: U.S. Bureau of Labor Statistics and Moody's Economy.com for forecasts

Increases in Medical Care Spending Reflect Increases in Both Prices and Utilization



Source: NCCI using data from the U.S. Bureau of Labor Statistics and the U.S. Bureau of Economic Analysis

Changes in Utilization Can Come From Many Sources

- Changes in the number of services provided
- Changes in treatment modalities (use of MRIs instead of X-rays)
- Introduction of newer pharmaceuticals/generics
- Adaptive practices by providers

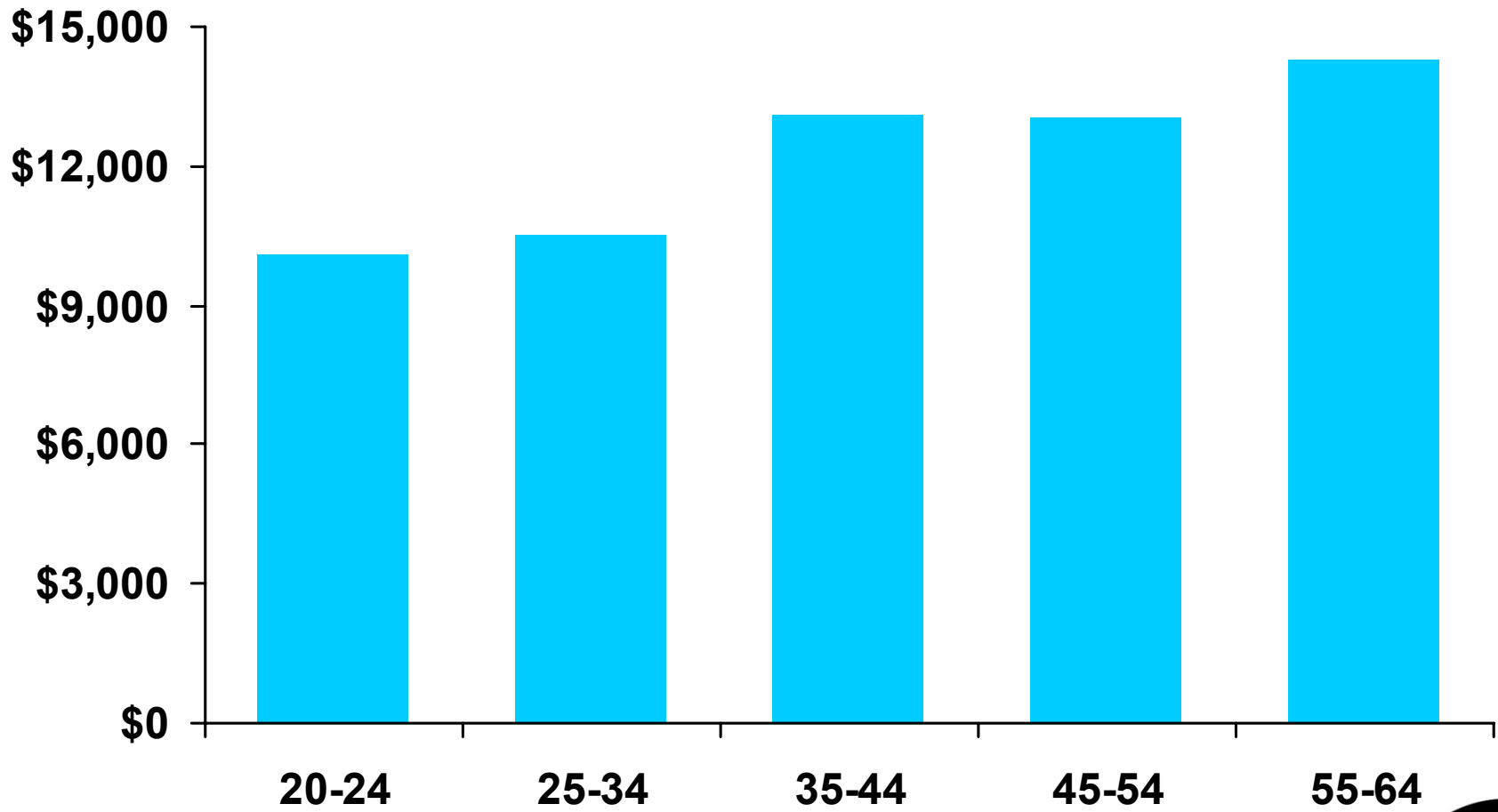


Demographic Impacts on Workers Compensation Medical Costs



Medical Severity Increases With Age

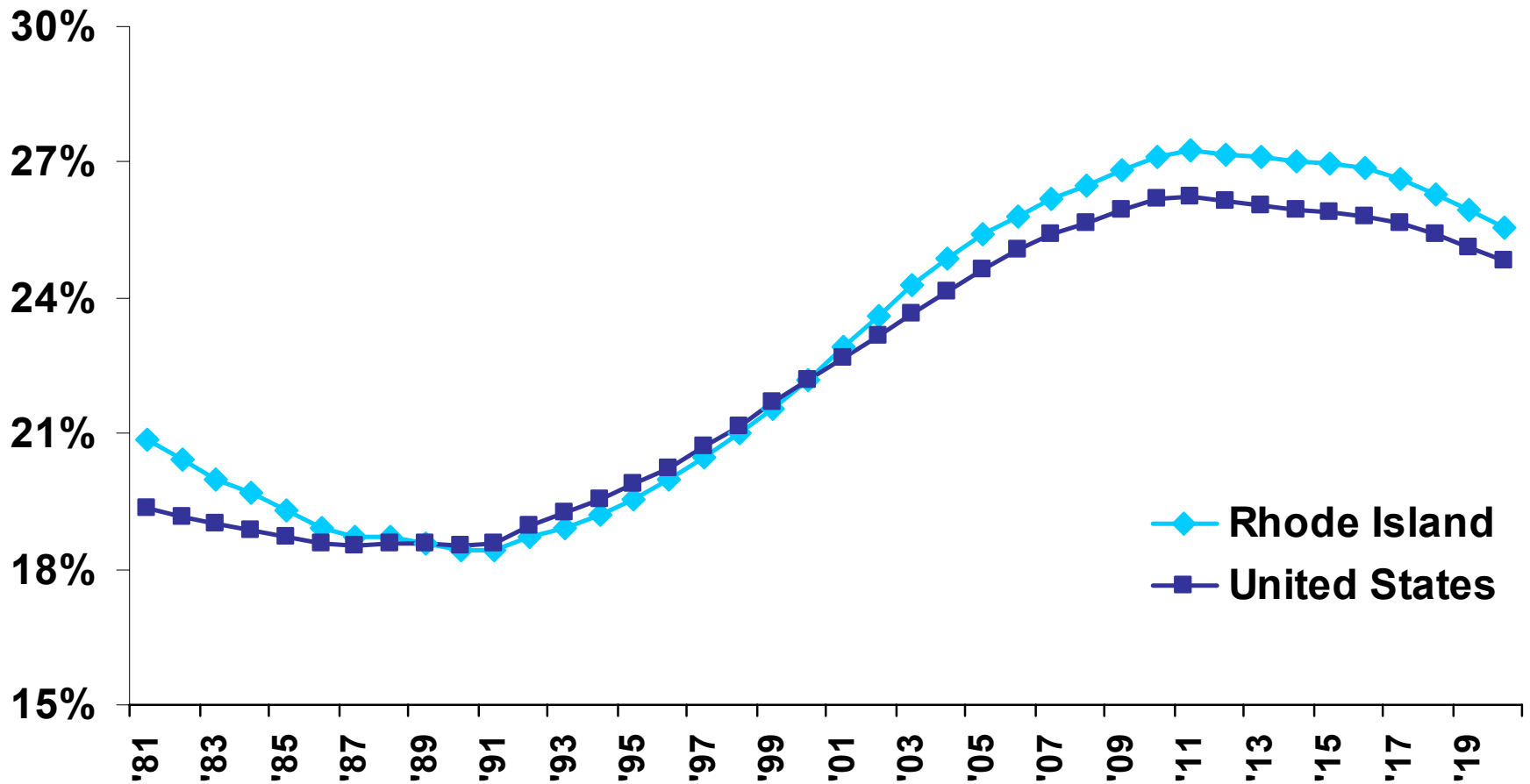
Average Paid + Case Medical Severity Reported at 18 Months by Age for Accident Year 2004, NCCI States



Source: NCCI



The Share of Rhode Island's Population Aged 45 to 64 Is Expected to Peak in 2011, as the Baby Boomers Age



Source: U.S. Census Bureau, Moody's Economy.com



Rankings of Top Ten Lost-Time Claim Diagnoses

1996-2003, NCCI States

Ages 20-34

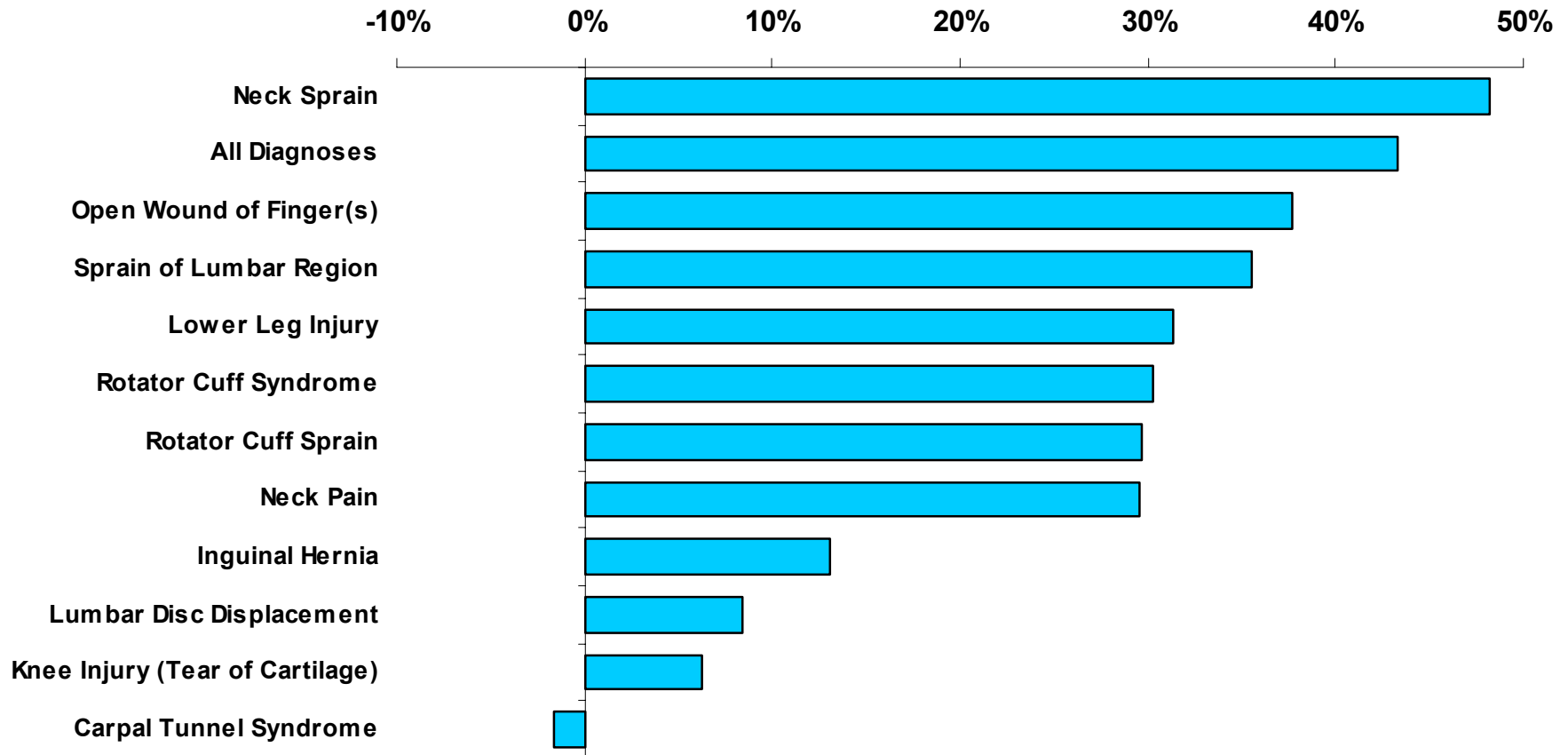
- 1 SPRAIN LUMBAR REGION
- 2 LUMBAR DISC DISPLACEMENT
- 3 CARPAL TUNNEL SYNDROME
- 4 LUMBAGO
- 5 CERVICALGIA
- 6 LOWER LEG INJURY NOS
- 7 SPRAIN OF ANKLE NOS
- 8 SPRAIN OF NECK
- 9 LUMBOSACRAL NEURITIS NOS
- 10 SPRAIN LUMBOSACRAL

Ages 45-64

- 1 CARPAL TUNNEL SYNDROME
- 2 LUMBAR DISC DISPLACEMENT
- 3 SPRAIN ROTATOR CUFF
- 4 TEAR MENISCUS KNEE
- 5 CERVICALGIA
- 6 SPRAIN LUMBAR REGION
- 7 ROTATOR CUFF SYNDROME NOS
- 8 LUMBOSACRAL NEURITIS NOS
- 9 LUMBAGO
- 10 LOWER LEG INJURY NOS

Older Workers Have a Higher Number of Treatments per Claim

Pct. Difference in Avg. No. of Treatments per Claim,
Workers Aged 45-64 vs. 20-34*, NCCI States, 1996–2003



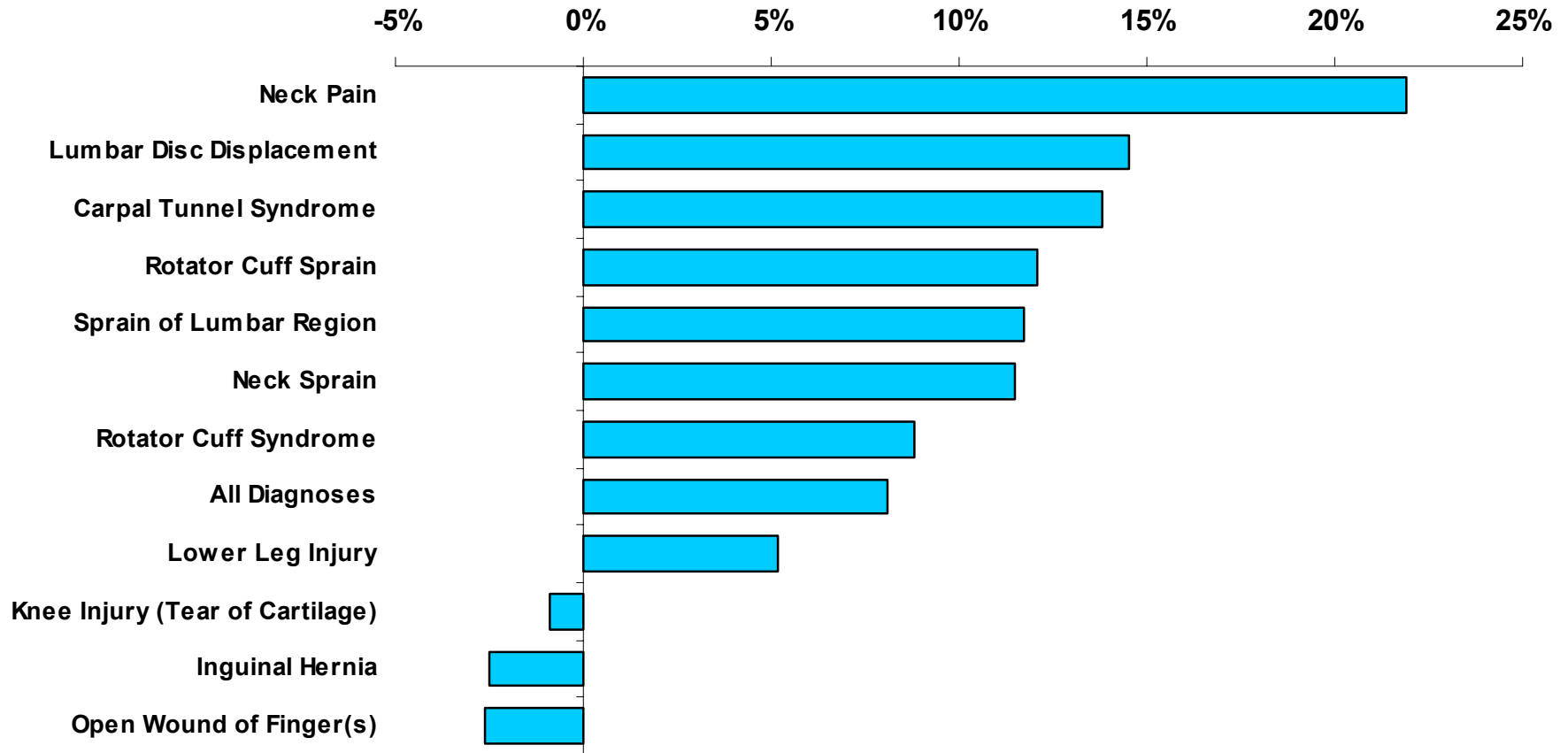
* Based on a comparison of cumulative medical payments through latest evaluation.

Source: NCCI



Average Price per Treatment Is Generally Higher for Older Workers

Pct. Difference in Avg. Price per Treatment,
Workers Aged 45-65 vs. 20-34*, NCCI States, 1996-2003



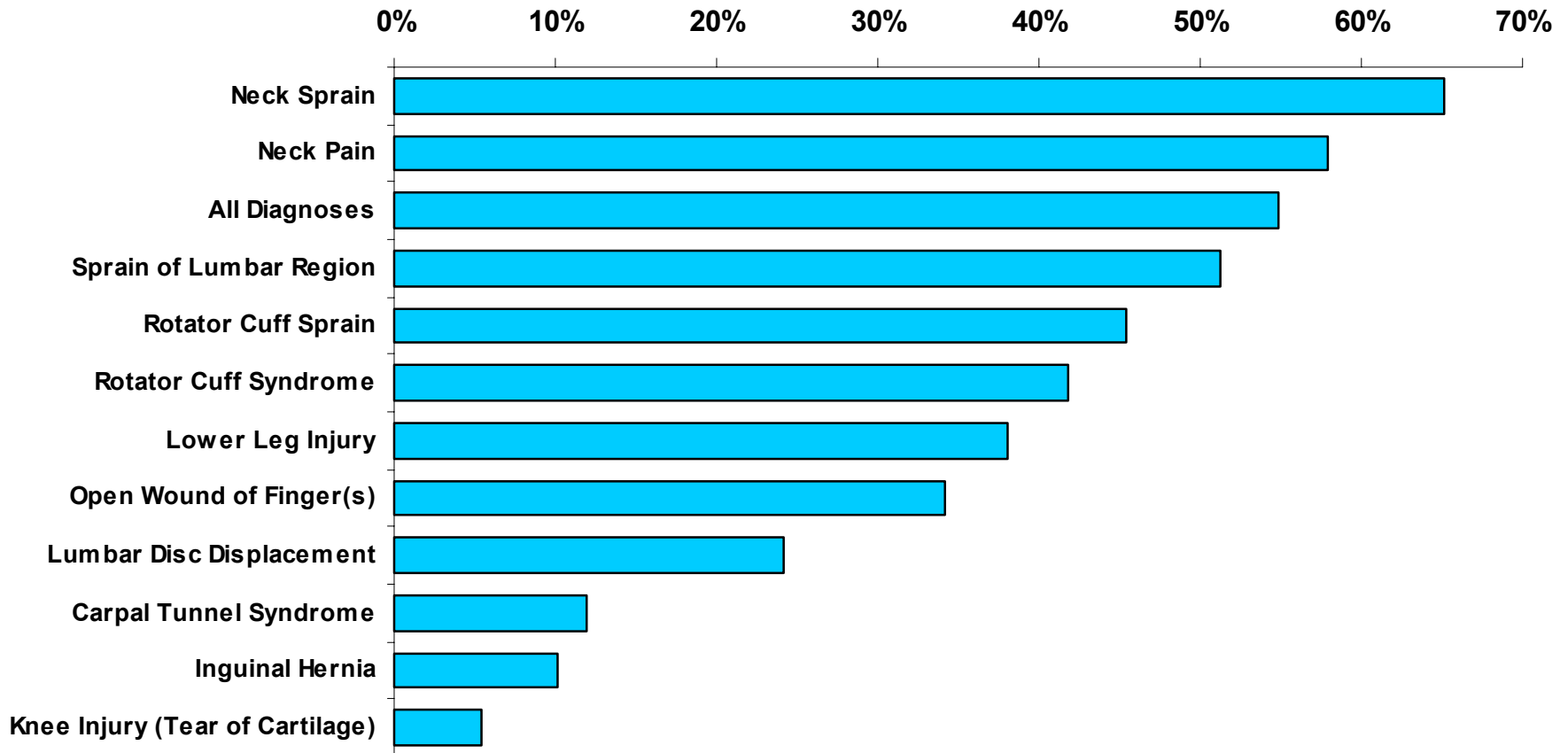
* Based on a comparison of cumulative medical payments through latest evaluation.

Source: NCCI



Medical Severity Is Substantially Higher for Older Workers

**Pct. Difference in Medical Severity, Workers Aged 45-64 vs. 20-34*,
NCCI States, 1996-2003**



* Based on a comparison of cumulative medical payments through latest evaluation.

Source: NCCI



Key Takeaways— Drivers of Medical Severity

- Ongoing increases in medical inflation and utilization suggest further upward pressure on medical severity in Rhode Island
- Medical severity increases with age
- Upward pressure on medical severity is likely to diminish as the baby boomers exit the workforce



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Closing Remarks

Thank You!